IV. Concluding Remarks

The subcommittee still had to concern itself with a whole series of more practical questions. Thus it was established that the special solvency reserve cannot be determined at all or only in part, if current business in risk lines in the total insurance portfolio of a life insurer is only insignificant. As insignificant are considered portfolios in which premiums amount to no more than 10% of the total premium receipts; in such cases the following scale is applicable (r = the quotient of the corresponding premium receipts):

$r < 2{,}5\%$	
$2{,}5\% \leq r < 5\ \%$	$25\%\ u$
$5\ \% \leq r < 7{,}5\%$	$50\%\ u$
$7{,}5\% \leq r < 10\ \%$	$75\%\ u$
$10\ \% \leq r$	$100\%\ u$

Nevertheless, a limitation of the definition of "risk life insurance" as opposed to the rest of life insurance with a savings feature was sought. The subcommittee has proposed no separate rules for such a delimitation holding to the view that this should be a matter for national regulatory bodies.

Yet it must be clarified that the special solvency reserve u does not have the characteristics of a fluctuation reserve, but rather serves to secure the lasting existence of the corporation. It is so calculated that it can normally be replenished by itself when excess loss claims are in part made against it. At any rate, it can be brought up again given the appropriate time.

In conclusion it may be stated that the committee was successful, without foregoing the most important factors, in developing a practical, simple and almost elementary solution to the solvency problem in risk life insurance, in which the by no means elementary probability theory is scarsely recognizable. Thus it is also shown that it is possible to relate harmoniously theoretical, practical and, yes, even political points of view.

LIFE INSURANCE (C3) SUBCOMMITTEE

Reference:
1974 Proc. Vol. II p. 518
1975 Proc. Vol. I p. 616

Hon. Dick L. Rottman, Chairman – Nevada
Hon. Ark Monroe III, Vice-Chairman – Arkansas

AGENDA

1. Report on research projects.

2. Consideration of discussion draft of proposed model regulation on life insurance disclosure and cost comparison.

3. Any other matters brought before the Subcommittee.

The Life Insurance (C3) Subcommittee convened at 1 p.m. in the Regents Room of the Olympic Hotel, Seattle, Washington on Wednesday, June 11, 1975. A quorum was present.

The subcommittee received and adopted the report of the technical subcommittee on the standard non-forfeiture and reserve valuation laws. The report was made by John O. Montgomery of the California Department (attached).

The subcommittee received and adopted the report of the task force on life insurance cost comparison by its Chairman, Stanley C. DuRose of the Wisconsin Department. The report is attached.

The subcommittee received the report of the task force on premium deposit funds by its Chairman, C. F. B. Richardson of the Tennessee Department. The subcommittee suggested that the task force obtain comments from the industry regarding the proposed model legislation which is included in the report within the next 30 days. The report is attached.

The (C3) Subcommittee authorized its Chairman to restructure the membership of the following task forces:

1. The task force on agents' compensation.

2. The task force assigned to study reinsurance activities.

The (C3) Subcommittee Chairman announced that the task force on life insurance cost comparison would now consist of the following members: Iowa, Chairman; Wisconsin, Nevada; Arkansas; New Jersey.

The subcommittee heard a report by Mr. Dan Anderson of the Iowa Department regarding a letter dated May 9, 1975, from Virginia H. Knauer, Special Assistant to the President for Consumer Affairs, addressed to William H. Huff, NAIC President, concerning state legislative proposals which propose to increase maximum limits on life insurance policy loan interest rates. Comments on the letter were received from the industry and various insurance department representatives at the subcommittee meeting. No action was taken.

Upon motion made and duly seconded the meeting was adjourned.

Hon. Dick L. Rottman, Chairman, Nevada; Hon. Ark Monroe III, Vice-Chairman, Arkansas; Hon. J. Richard Barnes, Colorado; Hon. Robert A. Short, Delaware; Hon. Maximilian Wallach, District of Columbia; Hon. William H. Huff III, Iowa; Hon. James M. Stone, Massachusetts; Hon. Evelyn Gandy, Mississippi; Hon. Edward G. Farmer Jr., Missouri; Hon. J. O. Wigen, North Dakota; Hon. Harold R. Wilde Jr., Wisconsin.

Standard Non-Forfeiture and Standard
Valuation Law (C3) Technical Subcommittee
Seattle, Washington
June 11, 1975

A. Proceedings.

1. Organization of the Work of the NAIC Technical Subcommittee.

Developments of the past six months have required a reappraisal of the functions of the technical advisory committee and its advisors to provide a simplified and more direct approach to the problems involved. There has been no change in the definition of the problems where action is needed as defined in the December 1974 report.

a. The general advisory committee, representing but not speaking for various organizations, has consisted of: Robert Houser, Chairman, for the Society of Actuaries; Gary Corbett, for the American Academy of Actuaries; James Hickman, for the academic community; Michael Jordan, for the National Association of Life Insurance Companies; and Richard Minck, for the American Life Insurance Association.

This group has served well its function of assistance in getting started and the technical subcommittee wishes to acknowledge and commend their service. Since this advisory group has completed its primary responsibility, it is really no longer needed. However, the technical subcommittee asks that its members continue to serve as part of the review and commentary staff.

b. Three task forces, composed of members of the technical subcommittee, have been organized and several more will be formed as soon as more current problems can be handled. Those presently organized are:

(1) Nonforfeiture Value Regulation -- William White, New Jersey, Chairman; Thomas Kelly, New York; Charles Richardson, Tennessee; and Marvin VanCleave, Wisconsin.

(2) Premium Deficiency Reserves -- William Burnes, North Dakota, Chairman; John Montgomery, California; Harold Bittel, Kentucky; and Ramon Estefania, South Carolina.

(3) Deferred Annuities and Deposit Funds Reserves and Values -- Keith Sloan, Arkansas, Chairman; James Montgomery, District of Columbia; Erma Edwards, Nevada; Ted Becker, Texas; and Charles Richardson, Tennessee.

Task forces are yet to be organized to cover some problems with special forms of insurance such as split life, deposit term, life cycle plans and general account index related products.

c. The Valuation Technical Advisory Committee (formerly the Technical Advisory Committee on the Long Range Aspects of Valuation) has been reorganized so as to provide members who can work closely together have the facilities available to be able to accomplish the work assigned. Members previously asked to function as working members, who are not now part of the reorganized Valuation Technical Advisory Committee, are asked to serve as part of the review and commentary staff of the technical subcommittee. The first meeting of this group was in New York City June 6, 1975.

The membership of this committee is: Edward A. Lew, Consultant, Chairman; Richard S. Robertson, Lincoln National Life, Vice-Chairman; John C. Angle, Guardian Life; Russell M. Collins, J.C. Penney Insurance Company; Grace Dillingham, American Life Insurance Association; Lowell Lamb, Mutual of New York; Don Maier, Metropolitan Life Insurance Company; Paul Sarnoff, Prudential Life Insurance Company of America (Mr. Sarnoff replaces Robert C. Winters who has taken on new responsibilities at Prudential making his continued participation impossible); and Frank DiPaolo, Confederation Life Insurance Company.

d. The review and commentary staff is composed of review and commentary members previously assigned to the Technical Advisory Committee on the Long Range Aspects of Valuation and those working members of that committee who will no longer be functioning as working members as well as members of the former general advisory committee and others who will be asked later to serve in this capacity. No chairman of this group is needed since its principal function will be to serve as a forum for the presentation of material being considered by the technical subcommittee for adoption of the NAIC. This staff has broad representation of many areas of the industry and the academic world and includes persons of non-actuarial experience as well as actuaries.

2. Presentation of Task Force Reports.

No reports were presented at this time because recent appointment made this impractical. However, a discussion of the work expected of these task forces brought the observations presented here.

a. Nonforfeiture Value Regulation – The NAIC task force will wait until the Society of Actuaries Committee Report is received before deciding upon a course of action. If this is not received by the time of the October 1975 meeting, the task force should proceed with its own plans.

b. Premium Deficiency Reserves – To be considered by this task force are:

(1) the effect of premium deficiency reserves calculated with respect to valuation net premiums derived on the basis of minimum valuation standards rather than those net premiums derived on the basis of the actual valuation standard used.

(2) Whether or not valuation mortality bases are to be in separate tables by sex.

(3) Whether or not an age setback varying by age is to be used to distinguish male from female gross premium rates.

(4) Whether or not the nonforfeiture values are to be in separate tables by sex.

(5) Whether or not a change in the maximum valuation interest rate is to be required now and if so, in what form.

(6) The Valuation Advisory Committee should be asked to consider what alternative or improvements are feasible given the California Approach (California Insurance Department Bulletin 74-11, attached) to the Premium Deficiency Reserve problem for plans where premiums and/or amounts vary by policy duration.

c. Deferred Annuities and Deposit Funds Reserves and Values -- The work of this task force will include:

(1) Recommendations for model regulation or legislation.

(2) Definition of proposed reserving formulas and illustrations as to how they will operate.

(3) Definitions of reserves for interest guarantees in excess of the statutory maximum interest rate for valuation purposes and illustrations as to how such reserves will operate.

(4) Methods alternative to a strict application of the present Commissioners Reserve Valuation Method to the valuation of deferred annuities with illustrations comparing each alternative to the present method.

3. Projects Requiring Professional Assistance.

These are not specific instructions, but a general description of the projects being considered by the NAIC technical subcommittee. Specific instructions will be prepared at the time such projects are formally assigned.

a. Nonforfeiture Value Regulation – When the Society of Actuaries Special Committee on Valuation and Nonforfeiture Value Regulation has completed its report this Fall, the NAIC technical subcommittee will prepare specifications for further work in the area of nonforfeiture value regulation. Of particular interest will be the alternatives presented to the present system of expense loadings in the nonforfeiture value calculations and the alternatives presented to the present adjusted premium approach. Comparative illustrations of the effect of each of these alternatives is expected.

b. The determination of experience tables needed to calculate contingency reserve liabilities for adverse cash flow and asset depreciation and the testing of such tables under various distributions of business and economic conditions. This project should be assigned the Society of Actuaries with technical assistance in defining some of the charges to the Society being furnished by the NAIC Valuation Technical Advisory Committee (The Lew-Robertson Committee). It is also possible that the Casualty Actuarial Society may wish to perform analogous research for Property and Liability investment and cash flow experience.

c. Mortality Tables – Two preliminary questions should be asked of the Society of Actuaries:

(1) Is a new mortality basis needed for standard valuation and nonforfeiture value regulation? The answer should be on a purely technical basis showing the unloaded mortality experience both on a select and an ultimate basis and by sex and unisex and comparing the current experience with that basic to the 1958 CSO and other tables used currently as statutory valuation bases. It is possible that even further refinement of tables, such as term vs permanent plan experience may be needed, but this should be deferred for now.

(2) If a new mortality basis is indicated, what choices of format of tables should be made giving the advantages and disadvantages of each? The answer to this question should include, but not be limited to, the consideration of:

(a) Separate tables for valuation vs nonforfeiture values.

(b) Whether the tables should be by sex or unisex.

(c) Whether or not a select table should be used for valuation.

(d) Loading formulas. These must have some scientific basis and the answer must include alternatives based on research in this area. It is imperative that such formulas not be on an empirical basis. For example, the formulas should not be such as to reduce the reserves that would otherwise be required by underlying mortality experience.

If it is decided that new mortality tables are needed, the testing of new tables developed must include not only the standard permanent plans, but also various forms of term insurance (decreasing, convertible and renewable) and guaranteed issue business.

d. The definition of a gross premium valuation -- Gary Corbett has volunteered to provide this definition for the technical subcommittee.

e. The development of a mathematical model which could be used to test different configurations of business in order to determine the surplus required under various assigned probabilities of ruin, where surplus is defined as the funds required in addition to the statutory reserve liabilities. If a statutory valuation system alternative to the present is considered, such testing would also be required for that system. As for the assigned probabilities of ruin, the first choice would be one chance in one thousand (.001) and, if possible, illustrations should also be developed for one hundred (.01) and one in ten thousand (.0001). This is a long range study project which should not interfere with legislative reforms needed to take care of current valuation problems.

4. The minutes of the meeting on June 9 appear after this report, followed by California Bulletin 74-11.

B. Recommendations.

The NAIC (C3) Life Technical Subcommittee on Valuation and Nonforfeiture Value Regulation should be authorized to ask the American Academy of Actuaries, the Society of Actuaries or any other organization or persons it believes can be of professional technical assistance to provide such service in response to specific technical questions.

The adoption of this recommendation is required since the recommendation adopted in 1974 by the NAIC authorized the technical subcommittee to contact the American Academy of Actuaries only. This current recommendation would enable a more expedient assignment of projects.

John O. Montgomery, Chairman, California; W. Keith Sloan, Arkansas; James R. Montgomery III, District of Columbia; W. Harold Bittel, Kentucky; Donald W. Fritz, Michigan; Erma Edwards, Nevada; William A. White, New Jersey; Thomas J. Kelly, New York; William R. Burns, North Dakota; Ramon Estefania, South Carolina; C. F. B. Richardson, Tennessee; Ted Becker, Texas; Stanley DuRose, Wisconsin.

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Standard Non-Forfeiture and Standard
Valuation Law (C3) Technical Subcommittee
Seattle, Washington
June 9, 1975

The (C3) Life Technical Subcommittee on Valuation and Nonforfeiture Value Regulation met Monday, June 9, 1975 in the Queens' Room of the Olympic Hotel in Seattle from 2:00 to 4:30 p.m. Members of the technical subcommittee present were: John O. Montgomery, California, Chairman; W. Keith Sloan, Arkansas; Erma Edwards, Nevada; William A. White, New Jersey; William R. Burns, North Dakota; Ramon Estefania, South Carolina, C. F. B. Richardson, Tennessee; and Ted Becker, Texas. Other State Insurance Department representatives present were: Manuel R. Cueto, New York; Frank Howatt, Oregon; and Lamar Walker, Utah. Review and commentary advisors present were: Gottfried Berger, Cologne Life Re.; Gary Corbett, SAFECO Life Insurance; Ardian Gill, Mutual of New York; Abraham Hazelcorn, Hazelcorn & Associates; and Richard V. Minck, ALIA. Other persons attending were: John K. Booth, ALIA; and George Kelly, Equitable of New York.

The agenda for the meeting consisted of:

1. A review of the organization of the NAIC technical subcommittee and its various advisory committees.

2. The presentation of task force reports.

3. Discussion of projects requiring professional assistance.

4. Discussion of proposals to be recommended for adoption at the June 1975 session of the NAIC.

The report to which these minutes are attached was derived through pursuing this agenda and the discussions evoked thereby.

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State of California
Department of Insurance
Bulletin No. 74-11
November 26, 1974

TO: All Admitted Life Insurers and Other Interested Persons

SUBJECT: Valuation of Policies With Guaranteed Premium Rates Varying by Policy Duration for a Guaranteed Renewal Period

1. This bulletin applies to all plans of life insurance where premium rates varying by policy duration are guaranteed for a specified period, excepting that this bulletin does not apply either to "split life" plans or to reinsurance.

2. This bulletin is intended to clarify this Department's position with respect to the calculation of deficiency reserves for plans with premiums varying by policy duration. This method is in conformity with practices generally associated with the Standard Valuation Law (Sec. 10489.1 of the California Insurance Code).

3. Since this is a clarification rather than a specification of a new method of valuation, it is expected that all insurers will comply with this bulletin on or before December 31, 1975. All insurers are reminded that Section 10479 of the California Insurance Code provides that approximate methods may be used, subject to approval by the Department.

4. The National Association of Insurance Commissioners is currently considering revisions to the Standard Valuation Law including those for plans with premiums varying by duration. This Department will consider the adoption of any recommendations of the NAIC.

5. Except as noted below, for each plan of life insurance, policy reserves will be calculated by considering the benefits and the valuation net premiums (defined below) over the entire period for which renewal is guaranteed. Premium deficiency reserves will be calculated considering the valuation net premiums (defined below) and the guaranteed

gross premiums over the entire period for which the premium rate is guaranteed. However, if the premium for a renewal period commencing at a given attained age is independent of issue age for the same benefits at that given attained age of the insured, that period shall be treated separately for valuation purposes.

6. The minimum reserves and accompanying premium deficiency reserves, if any, shall be calculated as follows:

   The valuation net premiums for both policy reserves and deficiency reserves shall be based upon a uniform percentage of the gross premium as specified in Section 10489.3 of the California Insurance Code.

   The policy terminal reserve is equal to the present value of the future benefits less the present value of future valuation net premiums over the period for which renewal is guaranteed. A premium deficiency reserve is required for policies with guaranteed premium rates whenever the uniform percentage exceeds one hundred. Such deficiency reserve shall be equal to the present value of such excess premiums derived by applying such uniform percentage in excess of one hundred to the gross premiums over the period for which premiums are guaranteed.

7. The Department may require a satisfactory demonstration that the reserves established are adequate according to reasonable assumptions with regard to interest, mortality, expense and persistency. This requirement will be mandatory on renewable term plans with renewal periods of less than five (5) years where any of the ultimate renewal gross premiums are less than the corresponding tabular valuation net premiums, and will be enforced either in connection with the analysis of valuation data for the preparation of valuation certificates or in connection with the annual analysis of company statement data for nondomestic companies.

Gleeson L. Payne
Insurance Commissioner

Premium Deposit Funds (C3) Task Force
Nashville, Tennessee
May 16, 1975

PREMIUM OR RETIREMENT DEPOSIT FUNDS

In recent years there has been increasing use of deposit accounts, variously described as "Premium Deposit Fund," "Retirement Deposit Fund," etc., the true purpose of which is to accumulate demand deposits, in addition to the regular policy benefits, to provide a "savings fund" withdrawable upon demand. These funds as illustrated in sales proposals are frequently several times larger than the cash values of the policy and can reach amounts much larger than the sum assured. A predetermined amount of deposit, starting in the second policy year, usually larger than the premium on the policy, is generally billed with the premium. The premium and deposit structures are designed so that the premium plus deposit is a level amount. In summary, the deposit account becomes the predominant feature rather than a minor aspect of the purchase.

Such accounts are generally governed by a special policy provision or rider, and the resulting accumulations are an important part of the sales promotion process. Indeed, in most cases, the emphasis is on a "savings fund" rather than on life insurance. Generally, but not always, upon default in payment of premium the fund is used to pay it, and generally, but not in all cases, the fund may be applied to buy life income under the settlement options. However, neither of these possibilities is the real purpose of the arrangement. The fund is designed to escape premium tax during the accumulation period and no agent commissions are paid so that it actually constitutes a demand deposit, withdrawable at any time with full accumulated interest, with no penalty or charge. Most companies pay very high interest rates (currently from 7% to 9%) and illustrate accumulations to age 65, frequently for juvenile ages at issue. A predetermined deposit is frequently billed with the premium and special policies with a premium reducing in the second year are used, often with nonlevel death benefits. The resulting picture is most confusing to the prospect and highly misleading sales promotion material is in common use. Passbooks which look like savings bank passbooks are often used.

(1) Typical Policy Provisions

1. Duration of Deposit Fund. Terminates with policy on death or surrender if nonforfeiture option becomes effective. Some agreements terminate at age 70 or 75.

2. Amount of Annual Deposits. In most cases, there is no limit on the annual deposit, but a few are limited to two or three premiums.

3. Limit on Total Fund. The majority of the provisions have no limit, but a few have a limit of all future premiums (not defined) or various other limits, such as the amount required to make the policy paid-up.

4. Interest Guarantee. 5% for ten years is a common rate with a lower rate thereafter, but there are many variations.

5. Interest Paid. Rates generally range from 7% to 9%.

6. Withdrawals. Full or partial withdrawals are almost always allowed without penalty. In most cases, there is no provision for six months' deferment as required by many states in the cash value policy provision.

7. Life Income. The majority of provisions permit application of the fund to purchase life income at settlement option rates and about one-third have no provision for a deduction from the fund to pay premium tax on such purchases. Many provisions allow the fund to be placed under any settlement option, e.g., left on deposit at interest, in some cases without requiring termination of the policy.

8. Owner of Fund. Generally the policyowner, but in some cases, the insured or the depositor has the right to withdraw the fund. Ownership is sometimes not clearly defined. In some cases, beneficiary has no interest in the fund, which is paid to the estate of the insured on death.

9. Policy Loans. Sometimes the deposit fund is automatically paid out if a loan is made, sometimes not. In a few cases, new deposits are suspended during the existents of a loan.

10. Payment of Premiums. In most, but not all cases, the fund is automatically applied to pay premiums in default. Usually, but not always, the fund is used before any automatic premium loan is made. In some cases, deposits are suspended if a loan exists.

11. Billing. In the majority of cases, a predetermined deposit is billed along with the premium. In some cases, the policy or premium notice actually refers to the deposit as "Combination Premium" or "Additional Premium."

12. Sales Illustrations. These generally project the fund to age 65 and frequently show accumulations only at current interest, with guaranteed rates added in small print, with no figures.

(2) Sales Illustrations

Attached is an example of the type of illustration frequently used. The projection of today's extremely high interest rates for 50 or 60 years hence is obviously misleading, especially as in most cases the guaranteed accumulation is not shown. Passbooks which look exactly like savings bank passbooks are frequently used. Their use is prohibited in some states. Illustrations usually describe the difference between the accumulated fund and the total deposits made as "Profit" or "Gain," clearly a misleading label, especially as the interest is taxable income.

(3) Design of Policies

Special policies are generally used with these deposit funds, almost always with a reduction in the second and later premiums equal to the amount of deposit illustrated, the reduction frequently being half or two-thirds of the first premium, so that the deposit is equal to or double the premium on the policy. The sum assured frequently reduces by 50% at age 65 and in some cases decreasing term coverage starting at issue, or even deferred coverage is involved, and the return of premium benefits for limited periods of time are also used. The resulting combinations of several types of death benefits, policy values and deposit funds are frequently very complicated and most unlikely to be understood by the purchaser. Control of the sales promotion material is essential to protect the public.

(4) Discrimination

Interest rates paid on these funds frequently exceed the rates earned before tax on the company's total assets. This can be justified only if the investment year method of allocating investment income is used for all of the company's lines of business. If the company has participating policyholders or pays a lower interest rate on settlement option or other funds left at interest, discriminatory practices are involved. Interest rates higher than rates paid on settlement options should probably not be permitted.

(5) Financial Aspects

The investment laws for life insurance companies were never designed to prescribe the type of assets required to cover demand deposits. They envisage long-term assets and liabilities, not the types of short-term, liquid assets required to be held by banks under the banking statutes. In many respects, these deposit fund operations are dangerously close to a banking function. The presence of very large demand liabilities with no penalty on withdrawals could threaten a company's solvency.

(6) Deficiency Reserves

Many of these arrangements guarantee interest rates higher than the maximum of 3.5% or 5% permitted for valuation of deferred annuities and pure endowments. If these funds are not to be interpreted as savings accounts and therefore in violation of banking laws, it must be argued that they provide benefits upon death or at a future date and the benefits are therefore similar to those under a deferred annuity or pure endowment. Some states are therefore requiring the maintenance of deficiency reserves equal to the present value of the excess of the guaranteed interest over the maximum valuation interest rate on the accumulated deposit at an arbitrary age, such as 65. This is an unsatisfactory solution and provides deficiency reserves very much less than would be required on a level premium deferred annuity with no loading, with the same guaranteed interest basis for accumulation of premiums. The difficulty is that the amount of future deposits is indeterminate.

(7) Premium Tax Aspects

The provisions governing these funds clearly contemplate that no premium taxes will be paid if the funds are withdrawn and, in about half of the cases, do not even provide for deduction of premium tax if the fund is applied under the settlement options. The legal position on premium taxes would have to be determined according to the laws of each state.

(8) Side Funds or Supplementary Premium Deposits Under Qualified Pension Plans

These involve a type of fund quite different from those described in (1) above. A common and perfectly legitimate method of funding a pension plan involves funding part of the pension benefit under a life or annuity policy and the balance funded by a single payment at retirement date at rates guaranteed in the policy. The necessary funds are accumulated in a side fund, usually not earmarked for individual employees and frequently not paid out on death or severance of employment. Such funds may be held and invested by the insurance company or by a trust company or other trustee. The funds would be taxable when actually applied to purchase the pension if such funds are subject to premium tax. Such funds should not be subject to the limits and other controls recommended for the type of funds in (1) above.

(9) Annuity Purchase Agreements

Various types of agreements are available on life and deferred annuity policies which permit payment of additional premiums to accumulate funds to provide deferred annuity benefits, or for single payments at maturity or surrender of the policy to purchase life income benefits at rates guaranteed in the policy. These arrangements provide for cash values in case of termination of the contract on a basis defined in the policy. There is no objection to such arrangements.

(10) Recommended Legislative Controls

The following Model legislation is recommended to control the use of these funds.

PREMIUM AND RETIREMENT DEPOSIT FUNDS
MODEL ACT

Life insurance companies may accept payments from policyholders under policy provisions which permit deposits to be made in funds established for the payment of future premiums on individual life or annuity policies, or for the purchase of annuity benefits at a future date, only under the following conditions and limitations:

(a) The maximum amount which may be held by the insurer at any time for payment of future premiums, is the smaller of (1) the total amount of the next ten (10) annual premiums payable or (2) the difference between the sum assured and the cash value of a life insurance policy. Under contracts providing for premiums which may vary in amount, the maximum amount permitted to be held at any time is the greater of (1) the cash value of the contract or (2) ten (10) times the amount of premium paid in any preceding policy year.

(b) In the case of qualified pension plans, the amount held by the company in a side fund may not exceed the amount required, on reasonable actuarial assumptions, to fund the portion of the pension benefit not funded by a life or annuity contract.

(c) The insurer shall not guarantee an interest rate on any such funds in excess of the rate permitted for valuation of deferred annuities and pure endowments.

(d) Ownership of the fund may not be vested in depositors other than the policyowner.

(e) Unpaid premiums shall be paid from the premium deposit fund prior to application of any automatic premium loan provision.

(f) Such funds shall not be used to increase nonforfeiture values and shall be payable upon death or the effective date of any nonforfeiture option.

(g) Provisions may be included to allow policyowners to withdraw such funds subject to the condition that the policy provision reserves to the insurer the right to defer payment for six (6) months.

(h) Sales promotion literature must illustrate the projected results of the fund using the guaranteed interest rate, irrespective of whether or not projected results are also shown on the basis of the rate currently being paid or some lesser rate. However,this provision shall not apply to side funds created under qualified pension plans.

(i) The use of passbooks in connection with such funds which bear any resemblance to savings bank passbooks or similar items is prohibited.

Charles F. B. Richardson, Chief Actuary, Tennessee State Insurance Department; James R. Montgomery III, Principal Actuary, District of Columbia Insurance Department; W. Keith Sloan, Life Actuary, Arkansas State Insurance Department; William R. Tolar, President, MFA Life Insurance Company; William A. White, Chief Actuary, New Jersey State Insurance Department.

AMERICAN PIONEER LIFE INSURANCE COMPANY

ORLANDO, FLORIDA

"PIONEERING TODAY FOR YOUR SECURITY TOMORROW"

PRESENTS THE ADJUSTABLE ESTATE BUILDER **PROGRAM**

FOR: SPECIMEN **AGE:** 30

FIRST YEAR ANNUAL PREMIUM DEPOSIT FOR LIFE PROTECTION	$ 380.00
ANNUAL PREMIUM DEPOSIT FOR LIFE PROTECTION - SECOND YEAR AND THEREAFTER	$ 190.00
ANNUAL DEPOSIT FOR RETIREMENT DEPOSIT FUND - SECOND YEAR AND THEREAFTER	$ 190.00
TOTAL ANNUAL DEPOSIT (About $1.00 per day)	$ 380.00

YOUR GUARANTEED ESTATE FUND - CASH TO YOUR FAMILY

	End of 10 Years	End of 20 Years	Age 65
LIFE PROTECTION*	$ 11,000.00	$ 11,000.00	$ 8,000.00
RDF SAVINGS FUND**	$ 2,435.00	$ 7,559.00	$ 26,075.00
TOTAL**	$ 13,435.00	$ 18,559.00	$ 34,075.00

YOUR LIVING BENEFITS FUND - FOR SAVINGS AND RETIREMENT

	End of 10 Years	End of 20 Years	Age 65
GUARANTEED CASH VALUE	$ 1,126.00	$ 2,737.08	$ 5,263.38
RDF SAVINGS FUND**	$ 2,435.00	$ 7,559.00	$ 26,075.00
TOTAL**	$ 3,561.00	$ 10,296.08	$ 31,338.38

CASH ANALYSIS	Age 65
1) Total Premium and RDF Deposits	$ 13,300.00
2) Guaranteed Cash Value Accumulation	$ 5,263.38
3) RDF Savings Fund Accumulation**	$ 26,075.00
4) Profit (1 minus 2 and 3)	$ 18,038.38
TOTAL CASH AVAILABLE	$ 31,338.38

SECURED SAVINGS AND PROTECTION

* Can be double the amount at age 65 by exercising G.P.O. Benefit

** Based on current interest rate of 7% (Guaranteed interest rate 5% for 10 years, then 3%).

This benefit illustration is for your reference and does not modify or change any of the policy provisions.

The Retirement Deposit Fund is a fixed part of the Policy Contract and is fully explained therein.

Life Insurance Cost Comparison (C3) Task Force
Seattle, Washington
June 10, 1975

The Life Insurance Cost Comparison (C3) Task Force convened at 2:30 p.m. in the Williamsburg Room of the Olympic Hotel, Seattle, Washington, on Tuesday, June 10, 1975. A quorum was present.

The Chairman reported that the twelve research projects identified in the June 1973 report of the task force had been completed and had been forwarded to each member of the NAIC. A list of the 12 research reports and the manner in which each may be obtained is attached.

The Chairman also reported that the research projects were the subject of a two-day seminar on April 20 and 21, 1975 at Colorado Springs, Colorado in conjunction with the Zone V meeting of the NAIC. The two-day seminar was well attended by members of the NAIC and members of the various industry organizations and other interested persons. All persons in attendance at the seminar were provided with (1) a prepared statement of the purpose and goals of the seminar, a statement titled "A Hypothesis on the Responsibility of Regulators to Assure Adequate and Valid Information for Life Insurance Buyers," prepared by the task force chairman and Mr. E. J. Moorhead, consultant to the task force, and (2) the discussion guide edited by the task force chairman and Mr. E. J. Moorhead, consisting of a summary of the conclusions and messages suggested by the reports on the task force research projects.

It is the opinion of the members of the task force that the reports on the twelve research projects represent a milestone in research and cooperative effort in the life insurance business. The task force also viewed the work that was done on the creation of the data bank identified as Research Project 1 as also a milestone in respect to the cooperative effort of the insurance industry, the NAIC, and a Congressional subcommittee.

Several prepared statements were presented to the task force at the Colorado Springs seminar and excellent audience participation and comment was had throughout the two-day session. The task force considers it significant that several major life insurers urged the adoption on a permanent basis of the model regulations adopted by the NAIC on an interim basis at the June 1973 meeting. In addition, the American Life Insurance Association also supported the adoption of that form of cost comparison and disclosure. At the conclusion of the seminar, the task force members present met and determined that a revised draft of the interim model regulations should be prepared for discussion purposes at the June meeting of the NAIC. In addition, the task force concluded that the discussion draft of the proposed model regulation should be given careful consideration and be subject to such revision as might be indicated in order to generate as much support as possible from the members of the NAIC and from the various interested industry organizations and insurers. The task force is of the opinion that the final recommendation should be submitted to the NAIC for adoption at the December 1975 meeting.

The discussion draft of the proposed model regulation on life insurance solicitation was mailed to all members of the NAIC and to the several interested insurance organizations and insurers on May 30, 1975. The discussion draft of the proposed model regulation on life insurance solicitation is attached. The discussion guide titled "A Summary of the Conclusions and Messages Suggested by the Reports on the Task Force Research Projects" is also attached.

As a result of a careful study of the reports on the research projects and as a result of the many meetings and discussions that have been had during the past two years, it is the conclusion of the task force that relatively few life insurance buyers fully understand the nature of the level-premium life insurance policy and that a first priority consideration is the furnishing to the buyer of basic information concerning the life insurance business. The task force also recognizes that relatively few buyers of life insurance have a desire for detailed information concerning life insurance and that one of the goals of the marketing system is the motivation of the prospect to seek a better understanding of the life insurance business and his life insurance needs. It was noted from the research that a majority of life insurance buyers mistakenly view cost to mean the premium outlay and they make for the policy and further that the time value of money is an unfamiliar concept. A majority of the young household heads who were interviewed agreed that it would be very helpful if companies and agents were required to use a standard cost index.

The task force, after long and careful consideration of the reports on the research projects and the many comments and suggestions presented to the task force, is recommending in the discussion draft continuation of the interest adjusted cost comparison method previously adopted on an interim basis but with a change in nomenclature which it is hoped will more appropriately describe the index as one related to the value of the policy upon surrender of life insurance coverage. The task force is also persuaded that an index should be furnished to life insurance buyers that would represent the relative value as to the cost of policies that would be continued in force as opposed to an index that would measure relative value upon termination of coverage. For the purposes of this discussion draft, the index for continuing policies is described as a premium outley index. The task force wishes to emphasize that the nomenclature contained in the discussion draft is a matter for discussion and a final conclusion has not yet been made.

The task force reached the conclusions presented in the discussion draft as a result of the following conclusions which were derived from the reports on the research projects and the commentary thereon:

(1) The consumer will be best served by a cost comparison method that, within the limits of acceptable validity, introduces the least number of unfamiliar concepts.

(2) The introduction of an interest rate to reflect the time value of money is very significant but a change of 1 or 2% in the interest rate will not produce very different results in policy rankings.

(3) The effect produced by the introduction of a non-zero mortality rate assumption is not very great.

(4) Vastly different patterns of lapse rates produce almost no differences in the rank order of the policies studied.

(5) There is marked similarity of the messages conveyed by particular average and snapshot approahces. The conclusion is that the choice between these approaches should not be made on a hypothesis that one approach is more accurate than the other.

(6) The control of any manipulation of policy values in order to present a more favorable cost ranking than what is actually the case should be achieved by regulatory action that keeps manipulated policies off the market rather than attempting to provide life insurance buyers with data sufficiently elaborate in order for the buyer to detect the manipulation.

(7) Correlation of actual cost rankings at the end of a ten or twenty year period with rankings determined by current scale dividends at the beginning of the period is good enough to make comparisons worthwhile but not good enough to justify elaborate comparison processes.

(8) In recognition of the current prevailing interest rate earned by life insurance companies on invested assets, the interest rate to be used in the calculation of the surrender index and the premium outley index is established at 5%.

(9) The indexes for participating policies should show separately the effects of the use of policy dividends in the calculation of the indexes.

The discussion draft of the proposed model regulation provides a relatively simple system for measuring the relative ranking of a majority of life insurance policies. The task force recognizes that in its present form the proposed regulation is not appropriate for certain more complex and dissimilar policy forms. The task force is of the opinion that once agreement is reached concerning basic requirements for disclosure and cost comparison the task force would then focus its efforts on the development of an appropriate system for cost comparison for the exempted plans.

In preparing the discussion draft, the task force is mindful that there is another NAIC task force working on a proposed model regulation for life insurance advertising and solicitation. To the extent that the advertising regulation would provide for equivalent control of one or more of the items identified in Section 8 of the discussion draft defining deceptive practices, then the comparable item in Section 8 could be deleted from the final draft of the proposed model regulation.

The task force is also aware that some of the new or additional concepts contained in the discussion draft would, if adopted, raise the question as to whether or not standardized language or definitions should be drafted and adopted by the NAIC. For example, the explanation of various basic life insurance matters required in items 1 through 7 of Section 4(b) should probably be subject to some minimum standards or standardized descriptions in order to minimize distortion in preparation of the material to be provided to the public. Similarly, the term "similar plans" as used in Section 7(a) should probably be further defined.

The task force also directs attention to the comment in the explanatory note which urges insurers to voluntarily provide a right to return the policy within ten days from the date it was received by the policyholder. If it is concluded that such a so-called ten day free look is a reasonable requirement and that it would serve a useful purpose, then it is quite possible that model legislation proposing such a requiremet should be drafted and adopted by the NAIC.

The task force also calls attention to the possible need for review of the NAIC model regulation on replacement of life insurance policies so as to conform that regulation to the requirements of the model regulation on life insurance solicitation. One specific item is that in a replacement situation the surrender index and the premium outlay index of a new policy should be compared with such indexes for the existing policy at the then attained age of the prospect in order to have a valid comparison of policy rankings.

The task force deems it advisable in this report to strongly emphasize its concern for the need for uniformity among the several states in any life insurance cost comparison regulation that is adopted. The life insurance buyer in the final analysis pays the cost of the delivery of the product and to any frivolous or unnecessary variations from state to state in the approach to life insurance cost comparison systems adds to the cost of the products that must be borne by the policyholder. There is an urgent need for uniformity of action by insurance regulators and at the same time there is an urgent need that all segments of the life insurance industry actively support the adoption of the model regulation that is ultimately to be adopted by the NAIC.

During the meeting representatives of Northwestern Mutual Life, Allstate Insurance Co., IDS Life Insurance Co., J. C. Penney Insurance Companies, Equitable Life, and American Life Insurance Association, spoke generally in support of the discussion draft but with reservations or opposition to specific portions. The task force stated its intention to appoint an industry advisory committee to work with the task force during the next six months to arrive at a consensus regulation that will receive the support of all segments of the insurance industry such as to make possible uniform application of the model regulation countrywide. The task force invites those persons interested in participation in the industry committee work effort to communicate such desire to the task force chairman.

The task force wishes to extend particular recognition to Mr. E. J. Moorhead who has served as consultant to the task force and who has provided learned advice and counsel to the task force in its work. Further, the task force recognizes the invaluable contributions of the many people and organizations who devoted the very large amount of time and effort necessary to produce the data bank and the reports on the various research projects. The NAIC and the insurance industry owes a debt of gratitude to all of those persons who have participated in so many ways in the work of the task force.

Hon. Stanley C. DuRose, Chairman, Wisconsin Hon. William H. Huff III, Iowa; Hon. Dick L. Rottman, Nevada; Hon. Don B. Odum, Texas.

Life Insurance Cost Comparison (C3) Task Force:
Research Project Reports Available
May, 1975

PROJECT REPORTS

Research Project One

(Production of a life insurance cost data base in cooperation with the Antitrust Subcommittee of the U. S. Senate's Judiciary Committee.) Portions published by the Antitrust Subcommittee as follows:

United States. Senate. Judiciary Committee. *The Life Insurance Industry: Hearings Before the Subcommittee on Antitrust and Monopoly.* 93rd Cong., 2nd Sess., Pt. 4. Washington D. C., G.P.O. (Su Doc No. Y4. J89/2: In 7/5 Pt. 4), 16 July 1974. $9.25. (Available from the Government Printing Office.)

Research Project Two

Society of Actuaries. *Analysis of Life Insurance Cost Comparison Index Methods.* September 1974. $7.00. (Available from the Society of Actuaries.)

Research Project Three

Moorhead, E.J. *"Snapshot" and "Average" Approaches to Policy Cost Comparison.* February 1975. No charge while supply lasts. (Available from the National Association of Insurance Commissioners.)

Research Project Four

Life Insurance Marketing and Research Association. *Consumer's Reactions to Life Insurance Policy Cost Comparison Methods.* April 1975. $2.00. (Available from the Life Insurance Marketing and Research Association.)

Research Project Five

American Life Insurance Association. *(Market Characteristics and Their Effect Upon Life Insurance Cost Comparison Methods.)* October 1974. No charge while supply lasts. (Available from the American Life Insurance Association.)

Research Project Six

American Life Insurance Association. *(Dividend Illustrations: A Comparison of Illustrated and Actual Dividend Results.)* October 1974. No charge while supply lasts. (Available from the American Life Insurance Association.)

Research Project Seven

Society of Actuaries. *Philosophies in the Computation and Dissemination of Dividend Illustrations.* September 1974. $4.00. (Available from the Society of Actuaries.)

Research Project Eight

American Life Insurance Association. *(The "Misunderstanding" Issue; Cost Disclosure in the Sales Environment.)* October 1974. No charge while supply lasts. (Available from the American Life Insurance Association.)

Research Project Nine

(Incorporated in Project Two above.)

Research Project Ten

Institute of Life Insurance. *The Nature of the Whole Life Contract.* June 1974. $.25. (Available from the Institute of Life Insurance.)

Research Project Eleven

Phase One.

Life Insurance Marketing and Research Association, and, Institute of Life Insurance. *Life Insurance Consumers; A Review of the Literature.* December 1973. $2.00 (Available from the Life Insurance Marketing and Research Association.)

Phase Two.

Institute of Life Insurance, and, Life Insurance Marketing and Research Association. *Life Insurance Consumers; An Exploratory Study of Attitudes and Expectations Regarding Cost Comparison.* May 1974. $2.00. (Available from the Institute of Life Insurance.)

Phase Three.

[Available October 1975] Institute of Life Insurance, and, Life Insurance Marketing and Research Association. *Life Insurance Consumers; A National Survey of Cost Comparison Attitudes and Experience.* September 1975. $2.00. (Available from the Institute of Life Insurance.)

Research Project Twelve

Moorhead, E. J. *The "Manipulation" Issue.* January 1975. No charge while supply lasts. (Available from the National Association of Insurance Commissioners.)

ADDRESSES

American Life Insurance Association
c/o Richard Minck, Actuary
1730 Pennsylvania Avenue
Washington, D. C. 20006

Government Printing Office
Public Document Sales
Washington, D. C. 20402

Institute of Life Insurance
Publications
277 Park Avenue
New York, New York 10017

Life Insurance Marketing and Research Association
Publications
170 Sigourney Street
Hartford, Connecticut 06105

National Association of Insurance Commissioners
Publications
633 West Wisconsin Avenue, Suite 1015
Milwaukee, Wisconsin 53203

Society of Actuaries
Publications
208 South LaSalle Street
Chicago, Illinois 60604

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DRAFT PROPOSED LIFE INSURANCE SOLICITATION MODEL REGULATION
June 1975 Exposure Draft

PREAMBLE.

In June 1973 the National Association of Insurance Commissioners adopted on an interim basis model regulations on life insurance policy cost comparison and deceptive practices, even though there were at that time numerous differences of opinion concerning the issues involved. Since that time much has been learned through experience with the model regulations in several states, through study of statistics gathered jointly by the NAIC and the U. S. Senate Subcommittee on Antitrust and Monopoly, through research projects that were requested on several specific issues, and through many meetings and discussions focusing on specific problem areas. The objectives to which this model regulation addresses itself arise from evidence of insufficient awareness by life insurance buyers in several areas basic to the choices they must make. First, too few buyers understand fully the nature of the level-premium life insurance policy. Second, although there is some public realization that policy costs differ for essentially similar products offered by different companies, the magnitude of these cost differences calls for prescribed means to permit these to be judged by those buyers who are interested in making comparisons. Third, there is a responsibility to furnish the public with a system for disclosure of basic policy information and with a cost comparison system that is trustworthy, convenient and reasonably understandable. A life insurance buyer is faced with several important choices at the time of purchase, some of which choices he may prefer to leave to an agent who undertakes to advise him, others of which he must make for himself. The goals of this regulation are to increase the buyer's understanding of what he or she is purchasing, and to provide valid and convenient means for such comparisons as the buyer, or the agent on the buyer's behalf, desires to make. The purpose is to permit interested buyers to distinguish successfully between policies that are relatively attractive and relatively unattractive in price.

Section 1. AUTHORITY.

This rule is adopted and promulgated by (title of supervisory authority) pursuant to sections _____ of the insurance code.

Section 2. PURPOSE.

(a) The interests of prospective purchasers of life insurance must be safeguarded by providing such persons with clear and unambiguous statements, explanations and written proposals concerning the life insurance contracts offered to them. This purpose can best be achieved by requiring disclosure of certain basic information and defining those acts and practices which are deceptive or misleading or misrepresent the terms of the contract.

(b) It is in the interests of prospective purchasers of life insurance that there should be available to such persons a life insurance surrender index and a life insurance premium outlay index prepared on a uniform basis for comparison of the relative value of similar plans of insurance. It is in the public interest to make such indexes available so that price competition in the life insurance market is encouraged and stimulated.

(c) This regulation is not intended to prohibit any life insurance agent or insurer from using additional solicitation material which is not in violation of this regulation or any other applicable (state) statute or regulation.

Section 3. SCOPE.

(a) Applicability. Except as hereafter exempted, this rule shall apply to any solicitation, negotiation or procurement of life insurance occurring within this state. This rule shall apply to any authorized insurer of life insurance contracts including fraternal benefit societies. This rule shall not apply to solicitations that constitute an invitation to inquire about an insurance product, which solicitations are not, in themselves, a solicitation of insurance.

(b) Exemption. Section 4(d) of this regulation shall not apply to:

1. Annuities,
2. Credit life insurance,
3. Franchise life insurance,
4. Group life insurance,
5. Plans of life insurance with benefits which vary by policy duration including but not limited to such plans as retirement income and variable life insurance,
6. Optional benefits which are supplemental to basic life insurance benefits such as accidental death and dismemberment, waiver of premium, or guaranteed insurability benefits,
7. Benefits which are purchased by a special option applicable to dividends,
8. Life insurance policies issued in connection with split funded pension trust plans.

Section 4. DISCLOSURE REQUIREMENTS.

In connection with the selling of life insurance:

(a) An agent shall inform the prospective purchaser that he is acting as an insurance agent and give the purchaser the full name of the insurance company or companies for which he is a licensed agent. In the case of direct response solicitation, an insurer shall inform the purchaser of its full name.

(b) The agent or insurer shall give to the prospective purchaser, prior to completion of any application for life insurance, one or more written documents containing at least the following:

1. A brief explanation of the three basic types of life insurance (endowment, whole life and term),
2. Examples or statements as to common uses or advantages and disadvantages of each basic type,
3. A brief explanation of participating and nonparticipating policies,
4. A brief description of stock and mutual companies,
5. A brief explanation of non-forfeiture benefits,
6. A brief explanation of how to determine the need for life insurance,
7. A brief explanation of how to compare relative costs or value of life insurance policies,
8. Except as to the insurance exempted in 3(b), the applicable life insurance surrender index and the life insurance premium outlay index. If such indexes are not readily available then, they must be furnished for representative ages and amounts of insurance for the insurance for which application is made. Each insurer

shall maintain at its home office or principal office, a complete file containing one copy of documents authorized by the insurer for use pursuant to the requirements of this paragraph 4(b). Such file shall contain one copy of each authorized document for a period of three years following the date of its last authorized use. Such file and documents therein shall be subject to examination by the Commissioner.

(c) The agent or insurer shall provide to the prospective purchaser prior to or with the delivery of a contract, a dated, written proposal describing the elements of the contract including but not limited to:

1. The name and address of the insurance agent or the name of the employee of the insurer, if no agent is involved, who assumes responsibility for the proposal,

2. The full name and address of the company in which the life insurance is to be written,

3. The name of the policy or contract and any supplemental riders,

4. Any provision in the policy which will reduce the death benefit while the policy is being maintained in force on a premium paying basis, other than a reduction as the result of a suicide provision or a reduction for a policy loan,

5. The premiums for life insurance (including annual premium mode if available) shown separately for the life insurance benefit and for each additional optional supplemental benefit provided in the contract, except for such combinations as are authorized by statutes or regulation,

6. The face amount of the life insurance shown separately from the amounts of coverage shown for any additional or supplemental benefit provided in the contract,

7. The amount of cash surrender value and cash dividends according to current scale for the policy shall be shown no less frequently than at the end of years one through 20, and also at age 60 and 65 in the case of cash surrender value,

8. The policy loan interest rate, if the policy contains this provision,

9. The durations of the suicide and incontestable provisions.

The written proposal may consist of (1) a separate written presentation, or (2) it may be included in the solicitation material advertising the policy. All information required to be disclosed shall be set out prominently therein in uninterrupted sequence in one location in the separate written proposal or in the advertising material. No additional material, other than that required, shall be interspersed between each of the items required to be disclosed. All matters pertaining to life insurance shall be set forth separately from any matter not pertaining to life insurance.

(d) Except as to insurance or benefits exempted in Section 3(b) the agent or insurer shall furnish, upon request of a sales prospect and in all cases at or prior to delivery of the policy, the life insurance surrender and premium outlay indexes calculated for the 5th, 10th, and 20th policy years. All indexes shall be set forth with equal prominence. The indexes need not be provided for a period which extends beyond the end of the premium payment period for the plan. The indexes must be accompanied by an explanation substantially to the effect that life insurance surrender cost and premium outlay indexes are a measure of the relative cost of protection of similar plans of insurance and other services rendered by the insurer and that, for each specific index, a low index number represents a better value than a higher one. For participating policies wherein dividends are involved in the calculation of the surrender or the premium outlay indexes, the equivalent level amount of such dividends calculated in the same manner as the index shall be separately disclosed.

Section 5. LIFE INSURANCE SURRENDER INDEX DEFINED.

(a) The surrender index for level premium plans of insurance shall be calculated by applying the following steps:

1. Determine the cash surrender value (and terminal dividend, if any) available for the periods ending with the 5th, 10th and 20th policy years,

2. For participating policies, accumulate the annual cash dividends at 5% interest compounded annually to the end of the period selected and add this accumulation to the result of Step 1,

3. Divide the result of Step 2 (Step 1 for nonparticipating policies) by an interest factor that converts it into a level annual amount accruing over the respective periods stipulated in Step 1. If the period is 5 years, the factor is 5.802, if the period is 10 years, the factor is 13.207 and if the period is 20 years, the factor is 34.719,

4. Subtract the result of Step 3 from the annual premium payable.

5. Divide the result of Step 4 by the number of thousands of the amount of insurance to arrive at the life insurance surrender index.

(b) The life insurance surrender index for plans of insurance with premiums which are not level shall be calculated as follows:

1. Determine the cash surrender value (and terminal dividend, if any) available for the periods ending with the 5th, 10th and 20th policy years,

2. For participating policies, accumulate the annual cash dividends at 5% interest compounded annually to the end of the period selected and add this accumulation to the result of Step 1,

3. Divide the result of Step 2 (step 1 for nonparticipating policies) by an interest factor that converts it into a level annual amount accruing over the respective periods stipulated in Step 1. If the period is 5 years, the factor is 5.802. If the period is 10 years, the factor is 13.207 and if the period is 20 years, the factor is 34.719,

4. Subtract the result of Step 3 from the equivalent level premium payable at 5% interest compounded annually to the end of the periods stipulated in Step 1 and dividng the result by the respective factors stated in Step 3,

5. Divide the result of Step 4 by the number of thousands of the amount of insurance to arrive at the life insurance surrender index.

Section 6. LIFE INSURANCE PREMIUM OUTLAY INDEX DEFINED.

The premium outlay index shall be calculated in the same manner as the comparable surrender index except that the cash surrender value and any terminal dividend shall be set at zero.

Section 7. LIMITATIONS.

(a) The life insurance surrender and premium outlay indexes must be used with caution and should not be emphasized to the point that actual premiums and policy benefits are overshadowed nor so as to minimize the value of the services of an agent, if any, or the financial strength of the insurer. These indexes are most useful in comparing similar plans of insurance.

(b) Any illustrated dividends used in calculating the life insurance surrender and premium outlay indexes must be displayed and shall be based on the current dividend scale in actual use by the insurer. In respect to participating policies, care must be taken to accurately describe the policy dividend as a refund or return part of the premium paid, which is not guaranteed and which tends to reflect the investment earnings, mortality experience, and expense experience of the insurer, and to state that the actual dividends paid may be more or less than the illustrated dividends used to calculate the cost indexes. Care must also be taken that the surrender and premium outlay indexes be furnished to the sales prospect in a manner which does not minimize the indexes or otherwise render them obscure.

Section 8. DECEPTIVE PRACTICES.

The following are defined to be prohibited unfair practices or deceptive acts in the selling of the insurance subject to this rule:

(a) The making of any misrepresentation or false, deceptive or misleading statement,

(b) The use of terms such as financial planner, investment adviser, financial consultant, or financial counselling to imply that the insurance agent is generally engaged in an advisory business in which compensation is unrelated to sales unless such is actually the case,

(c) The use of comparisons or analogies or the manipulation of amounts and numbers in such a way as to mislead the prospective purchaser concerning:

1. The cost of the insurance protection to be provided by the insurance contract, or

2. Any other significant aspect of the contract,

(d) The use of any system or presentation for comparing cost of life insurance that does not recognize the time value of money,

(e) The use of phrases such as a deposit, an investment, a savings when referring to an insurance premium,

(f) In respect to participating policies, a description of the policy dividend as other than a refund or return of part of the premium paid, which is not guaranteed and which is dependent on the investment earnings, mortality experience and expense experience of the company,

(g) Recommending to a prospective purchaser the purchase or replacement of any life insurance policy or annuity contract without reasonable grounds to believe that the recommendation is not unsuitable for the applicant on the basis of information furnished by such person after reasonable inquiry as may be necessary under the circumstances concerning the prospective buyers insurance and annuity needs and means.

Section 9. PENALTY.

The violations of this rule shall subject the insurance company or agent to the penalties provided in _____.

Section 10. EFFECTIVE DATE.

This rule shall apply to all solicitations of life insurance on or after _____.

EXPLANATORY NOTE.

The life insurance surrender index and the life insurance premium outlay index can be viewed as measures of the relative cost or value of protection and other services rendered by the insurer and are useful for comparison of similar policies.

The surrender index is the average annual premium minus any average annual dividend and average yearly increase in cash surrender value for the period, all adjusted for interest. An average yearly cash surrender value increase is calculated as the annual amount which accumulated with interest for the specified period will have the same accumulated value at the end of the period as the cash surrender value at that time. The surrender index is a measure of the relative cost of protection if the policy were to be surrendered at the end of the specified period.

The premium outlay index is the average annual premium minus any average annual dividend for the period, all adjusted for interest. The premium outlay index is a measure of the relative cost of protection in the event of death of the insured or of continuance of the policy calculated at the end of the specified period.

In respect to the annual dividend, the effect of the interest adjustment is that the illustrated annual dividends are converted into equivalent level annual dividends so calculated that when accumulated with interest for the specified period they have the same accumulated value at the end of the period as the actual nonlevel dividends. If premiums are not level a similar calculation process is used to determine the average yearly premium adjusted for interest.

Since the life insurance surrender and premium outlay indexes are a measure of the amount paid for the protection and other services rendered by the insurer, a low figure for any one index represents a better value than a higher one for the same index.

In direct response merchandising, it is intended that an appropriate interrogatory at the time of the application for insurance, as to the applicant's opinion of the suitability of the product after a review of his insurance needs and means, be deemed to meet the requirements of Section 8(g).

It is urged that all insurers will voluntarily provide an unrestricted right to return the policy, within 10 days from the date it is received by the policyholder, to the insurer at its home or branch office, if any, or to the agent through whom it was purchased. Provision shall not be made to require the policyholder to set out in writing the reasons for returning the policy, to require the policyholder to first consult with an agent of the insurer regarding the policy, or to limit the reasons for return.

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Summary of the Conclusions and Messages
Suggested by the Report on the
Life Insurance Cost Comparison (C3) Task Force
Research Projects

A Discussion Guide
April 20, 1975

Edited by
S. C. DuRose, Wisconsin Deputy Commissioner of Insurance
and E. J. Moorhead, Consultant to the Task Force

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KNOWLEDGE, VIEWPOINT AND NEEDS OF THE BUYER
(Highlights of Report on Research Projects 4 and 11)

For a majority of the American public, cost comparison is of some concern, but it is not among the most important considerations facing prospective buyers of life insurance at the point of sale. The competency of agents and their readiness to recommend appropriate coverages, the comprehensibility of contract language, and the amount of premium outlay rank much higher on prospective buyers' lists of concerns.

Highlights of the project are as follows:

1. Life insurance is regarded as a necessity by a substantial majority of consumers and they stress protection of dependents as the main reason for ownership. Despite this, ownership objectives are low and there are wide differences in perceptions as to the amounts that would be sufficient.

2. A majority of consumers view cost to mean the premium outlay that they make, and very few give a definition of cost that would reflect knowledge of, or attention to, the various cost comparison methods under discussion.

3. Although there is little evidence of dissatisfaction with currently available cost information, half of the household heads in the national survey said that they had "a lot" or "some" difficulty figuring out how much a particular policy would cost. By way of comparison, 73 percent said they had difficulty understanding policy terminology, 48 percent had difficulty determining how much to buy, and 20 percent admitted to difficulty in talking to agents.

4. Nearly two in three of the household heads think that there are differences in costs for similar policies, but only four in ten buyers said they had compared costs for a policy they had bought.

5. Three-fourths (73 percent) of the young household heads agreed that it would be very helpful if companies and agents were required to use a standard cost index so that they could determine the best buy for their money.

6. Small groups of consumers were shown detailed presentations of three cost comparison methods: the traditional net cost (snapshot), the interest-adjusted (snapshot), and a benefit-to-premium ratio (average) method. Because of its simplicity, the participants preferred the traditional method by a wide margin. When forced to work through the calculations, the participants in the discussion sessions found other methods confusing and hard to understand. Also, because of the way in which the interest element was introduced, it appeared that savings accounts were being posed as an alternative to the purchase of life insurance – a concept that was widely rejected.

7. Descriptions were read beginning with the simple premium outlay (out-of-pocket method) and leading through the traditional, interest-adjusted, and benefit-to-premium methods. Though neither gained majority support, the interest-adjusted and the benefit-to-premium methods were most preferred with, if anything, slightly more support shown for the benefit-to-premium (average) method. When asked to state the reasons for their preferences, the household heads repeated that they had been told in the descriptions of the methods, i.e., that the interested-adjusted and benefit-to-premium were more complete than either out-of-pocket cost or the traditional net cost methods.

8. The time value of money was clearly an unfamiliar concept even when life insurance was compared to saving an equivalent amount of money. The benefit-to-premium method was preferred in the national survey because the household heads were told it was the most complete. In the discussion sessions, where the methods were presented in detail, the benefit-to-premium method was faulted for being the most confusing. Discussants also found it difficult to determine whether a high index value represented high or low cost, and some said that the low probability of dying during the early policy years would make them question the value of life insurance.

These studies were undertaken in an area in which consumers possess little knowledge and in which it is easy to elicit "acceptable" answers that may have little correspondence to actual buyer behavior. Rather than uncovering evidence of overt demand for information, the survey appears to have tapped a more generalized "right to know."

In the search for a cost comparison method to replace the traditional net cost index, the consumer will be best served by one that, within the limits of acceptable validity, introduces the least number of unfamiliar concepts. The survey results raise the real possibility that when an index cannot easily be explained, rather than helping consumers locate the best buy, it may cause them not to buy. This suggests the choice of a "snapshot" rather than an "average" approach to cost comparison.

POLICY DATA OBTAINED FROM 195 LIFE COMPANIES
(Highlights of Report on Research Project 1)

Policy information gathered jointly by this task force and the U. S. Senate Subcommittee on Antitrust and Monopoly, was used extensively in several of these Research Projects. Full particulars are recorded in the printed U. S. Government Report "THE LIFE INSURANCE INDUSTRY (PART 4)" covering Subcommittee Hearings of July 16, 1974. The questionnaires used (see particularly pp. 2500-1) and the procedures and factors used to analyze the data are exhibited.

The following quotations from p. 2228 describe the data:

> All of the 195 companies were asked to identify the three leading policies of the cash-value type that they were selling in 1972. They were then asked to submit detailed particulars of premiums, dividends and cash values for each of these leading policies as of July 1, 1973. . . . .
>
> The figures used in the Study are for policies sold to men. . . . . It is important to observe that the dividends reported by the companies for participating policies are those used in 1973 sales presentations; they are not estimates of dividends that will be paid in future years on these policies, nor are they histories of dividends that have been paid in past years.
>
> It is recognized that there are some differences in policy provisions that affect the showing of any particular policy in a comparative study of this kind. . . . . .the tabulations now being used do not reflect (these) differences. The justification for such treatment is that cost indexes are properly viewed as approximations rather than precise measures.

Much of the information in this valuable study is now obsolete by reason of changes that companies have made in dividends, premiums, and cash values. This does not damage at all the value of the material for the primary purposes for which it was gathered; but, as a few company officials have rightly pointed out, it does make the data unsuitable for future publication with the policies identified by company name.

STUDY OF COST COMPARISON METHODS
(Highlights of Report on Research Project 2)

The report defines each of thirteen methods, offering the source and mathematical formula for each. It also demonstrates, mathematically, the relationship of each of these methods' formulas to a generalized formula for the gross premium of a policy. And it offers a tabular summary of the characteristics of each of the methods and of various criteria against which each of the methods are measured.

1. The rank order of policies is materially different for nearly any pair of methods chosen. This conclusion is affected by the policy duration selected or whether one is comparing participating or guaranteed cost policies; and certain pairs of methods do correlate more closely than others. But this is the general conclusion suggested by the computations.

2. There is some significant difference in the rankings between the results produced by methods which include all cash values over the policy duration analyzed and those which reflect only the one cash value at the end of that time.

3. Policy rankings vary significantly when the comparisons are made at different policy durations. No one duration is a very accurate representation of the rankings found at another.

4. There is a tendency for policies with relatively high or low annual premiums to have comparably high or low cost comparison indices. However, a comparison of annual premiums is not an adequate substitute for a comparison of cost comparison indices.

5. The choice of any reasonable scale of Yearly Renewable Term premiums has little or no effect on the policy rankings according to the Linton Yield method. The actual yields do vary noticeably, however, when different YRT premiums are used.

ONE INTEREST RATE OR SEVERAL – WHAT ABOUT MORTALITY AND PERSISTENCY? (Highlights of Report on Research Project 9)

The Society of Actuaries Committee on Cost Comparison Methods and Related Issues (Special) deals with this project (and Project Number 2) in its September 1974 report entitled Analysis of Life Insurance Cost Comparison Index Methods.

On the subject of the use of an interest rate, that report indicates that a desirable cost comparison method reflects, in some manner, the time value of money.

On the question of the use of average assumptions, which specifically refers to the use of a standardized interest rate or probabilities of dying or lapsing the policy, the report has this to say:

> A question that has generated much discussion is whether average assumptions or assumptions which apply to large groups of lives have a valid place in the calculation of a cost comparison index for a specific policy or an individual life. With reference to the inclusion of mortality and lapse rates, statements such as these have been made: 'A policyholder does not die a bit each year and he does not lapse a portion of his policy each year.' With regard to the use of a 4% interest assumption, the statement has been made: 'A 4% interest assumption is not applicable to all persons considering the purchase of a life insurance policy, and even to those for whom it has some applicability it wouldn't be uniformly appropriate for the entire lifetime of the policy.'
>
> The above statements are correct in the sense that at any particular time a policyholder is either alive or dead, the specific policy is either in force or lapsed; it is also true that a level 4% isn't likely to be an accurate representation of the time value of money to the policyholder over the lifetime of the policy.
>
> However, as we have stressed previously, at the time a life insurance policy is issued, the 'true cost' of a policy cannot be determined under any circumstances by any method. We have also stressed that the purpose of a cost comparison index is to direct a purchaser in a general way to the policy which offers an attractive cost. This would imply that an important characteristic of a method for calculating cost comparison indices is that it provide the best ranking of policies by cost. That being so, one may wish to consider using group average assumptions in the calculation of a cost comparison index. If the use of such assumptions can provide the prospective purchaser with a better (i.e. more useful and reliable) index than can be provided without such assumptions, then we should explore the consequences of their use.
>
> Related to the question of whether or not average assumptions should be used is the question as to what set of average assumptions should be used. The Committee believes that if cost comparison index formulas involving average assumptions are used, the assumptions used therein must be uniform from company to company and between policies. This is the only system under which a prospective buyer can properly rank various policies. Cost indices based on different assumptions would render rankings meaningless. An individual buyer is not interested in a particular company's expected experience. It will, in all likelihood, have little relation to his own. He is, however, very much interested in how various policies fare under a given set of uniform assumptions.

The report asks several questions related to the use and variation of assumptions on interest, mortality and persistency and offers these answers:

1. The introduction of an interest rate is very significant.

2. A change of one or two percent in the rate will not produce very different results in the ranks of the policies. The rankings are changed hardly at all.

3. The report shows that "for (policy) durations that do not extend past attained age 65, mortality is not a significant factor." It is also stated, more broadly, that ". . . the effect on zero policy rankings produced by the introduction of a non-zero mortality rate assumption is not very great. The effect of mortality can be roughly approximated by using a higher interest rate than would normally be assumed, if that is desired."

4. Only two methods involve the use of non-zero lapse rate. With regard to the Risk Premium Index method, ". . . the decision of whether to include a lapse rate assumption is not a crucial one." With regard to the Company Retention method, ". . . it would seem to make a reasonable difference in policy rankings whether or not a non-zero lapse rate (is used) . . . ."

5. For both methods utilizing lapse rates, it is really not of great importance to the policy rankings what general magnitude of lapse rates is chosen.

6. For the consumer who has seriously spent time shopping intelligently for the life insurance policy he selects, a lapse rate pattern that is near zero in the first few years and then steadily increasing could be more representative of his situation. This is the opposite of normal group-average experience. Or the lapse rate could be level by policy duration. The report indicates that vastly different patterns of lapse rates produce almost no differences in the rank order of the policies studied.

"SNAPSHOT" AND "AVERAGE" APPROACHES TO POLICY COST COMPARISON
(Highlights of Report on Research Project 3)

A definition of each of these words is offered. A Snapshot Method compares policy attractiveness looking ahead to a specified future time of assumed termination; an Average Method reflects probabilities of lapse, surrender and death throughout the period of observation. (The definition used in at least one of the other Research Reports in this series differs from this one.)

The relative superiority of each approach over the other by each of nine tests is itemized as follows:

Average Approach Rated Superior	Snapshot Approach Rated Superior
Informational Content	Understandability
Comparing Dissimilar Policies	Calculability
Single Index Sufficient	Quantity of Assumptions
	Package of Elements Played Down
	Adaptability to Buyer's Interests

Test No. 7, Recognizability of the meaning of the index, was considered not identifiable with either approach more than with the other.

As in another Report by the same author, attention is drawn to the market similarity of the messages conveyed about the attractiveness of policies by particular Average and Snapshot approaches. The conclusion is that the choice between these approaches should not be made on a hypothesis that one approach is more accurate than the other.

THE NATURE OF THE WHOLE LIFE CONTRACT
(Highlights of Report on Research Project 10)

Historically the assumption was that a whole life contract can be separated into protection and savings elements gained support with the appearance of nonforfeiture rights. These are auxiliary rights, available to the policyholder who does not wish to continue the original arrangement of protection under a whole life contract, choosing instead to use the cash value of the policy.

The emergence of nonforfeiture rights did not alter the whole life contract, but it did give rise to confusion as to the nature of the contract, once cash values became equated with savings or an investment.

Some specialists feel that the subject is too technical to be readily understood, and so explain it by means of an analogy that splits the contract into an insurance element that declines, and a savings element that increases. Others split the contract in an effort to compare costs. At another level, there are entrepreneurs who split the whole life contract to help sell their own brand of goods.

The report examines the views of a number of several specialists, including the lawyer, actuary, educator, agent and accountant. It also summarizes research on the consumer's view. The point is made that, to a remarkably uniform degree, court rulings (which in the final analysis define the actual nature of a whole life contract) have held that life insurance, including its cash value, is not a form of savings.

Observing that there is no unanimity in the way that the whole life contract is perceived by those who are seriously interested in the subject, the report notes that the confusion arises when analogy is substituted for fact, adding that it is always dangerous to ignore the plain terms of a legal document, and it is clearly misleading if the explanation of such a document is at variance with its terms.

The report suggests that a reasonable solution to the problem should strive to express the nature of the whole life insurance in a way that will include these thoughts:

The whole life insurance contract is a contract of protection – an arrangement by which the insured person, upon regular payment of a level premium, is guaranteed that upon his death, his beneficiary will receive a stated amount.

While the central purpose of the contract is insurance protection, the contract also provides auxiliary rights which are available to the policyholder during his lifetime if he does not wish to continue the original arrangement. These stem from the level-premium plan, the effect of which is to collect from the policyholder more than the cost of the pure risk in the early years to permit accumulation of a reserve against the rising risk of the later years, when the level premium alone would be insufficient.

EFFECT OF MARKETS SERVED
(Highlights of Report on Research Project 5)

The report shows that cost comparison rankings can be significantly affected by differences among companies' experiences (as to interest yields and mortality, persistency, and expense rates) which are affected by the markets in which the companies operate. The effects on the rankings are magnified if experience factors associated with a particular market are either better in each respect or worse in each respect than average.

Policy features not reflected in the index introduce further complications into the cost comparison picture. Some of the features discussed in the body of the report include:

1. Supplementary coverages;
2. Guaranteed settlement options;
3. Conversion privileges;
4. Guaranteed insurability options;
5. Cash value patterns;
6. Policy loan interest rates;
7. Basis for determining insuring age (nearest birthday or last birthday);
8. Treatment of "unearned" premiums at death; and
9. Fractional premium loadings.

MINIMIZING MISUNDERSTANDING
(Highlights of Report on Research Project 8)

The report first divides cost comparison systems into two groups. One provides prospects with a "disclosure statement" containing enough information to enable most buyers to make a reasonable purchase decision. The second is a "policy ranking method" which provides condensed information adequate to make a preliminary screening of a number of policies to determine which policies are of enough interest to make further inquiries about. The report next outlines several fundamental considerations that a buyer of life insurance will have -- one of which is the relative cost of alternative policies he is considering.

The report lists the following ten standards generally applicable to the use of cost indexes for whatever purpose:

1. Indexes should clearly be described as applying to particular policies, not to companies as a whole.

2. Any cost index should be presented as being a means of comparing possible relative costs of two or more policies rather than being an absolute measure of the cost of a policy to an individual.

3. Only similar policies should be compared.

4. The use of illustrated dividends in preparing cost indexes should be clearly indicated and the nature of dividend illustrations should be clearly and accurately described.

5. Each cost index should clearly identify the basis for comparison that it provides.

6. The assumptions used in a cost comparison should be specified.

7. It should be made clear that small differences in cost indexes are not significant and should be ignored.

8. Any description or presentation of the differences between the results should be appropriate to their true magnitude.

9. The source of the data and the date on which the data were originally compiled should be stated.

10. It should be made clear that a cost index is only a measure of cost and does not take into account the other fundamental factors which should be considered in choosing a life insurance policy.

The report goes on to list the following four considerations applicable to the use of cost indexes and disclosure statements in a sales situation:

1. Each policy being compared should be, or be reasonably expected to be, equally available to the prospect.

2. The age and policy size should be appropriate to the prospect.

3. Enough information should be given to the prospect so that he will be aware of the different cost indexes that might apply.

4. The cost of supplementary benefits, if any, should be carefully explained.

Finally, the report lists the following three considerations applicable to the preparation of lists of policy rankings:

1. The scope and limitations of the information should be clearly and prominently stated.

2. Enough figures should be shown so that a prospect will be aware of the different cost indexes likely to apply.

3. All policies included in a list should be reasonably comparable as to participating status, benefits provided and underwriting standards.

USEFULNESS OF DIVIDEND ILLUSTRATIONS
(Highlights of Report on Research Project 6)

The report points out that some long range trends in interest rates, mortality rates and expenses have affected all companies during the period studied, but that there have been variations in performance among individual companies that result in changes in ranking between cost indexes based on illustrated dividends and those based on dividends actually paid during the period.

The report shows results both for policies issued by the group of 19 large mutual companies studied by the Joint Special Committee on Life Insurance Costs in developing its 1970 report and for larger groups of 65 and 72 companies, for which data were published in Best's Review in 1973.

The correlation between rankings based on illustrated dividends and those based on actual dividends were high for the ten year old policies and somewhat lower for the twenty year old policies.

These results appear to corroborate the observation made in the Report of the Joint Special Committee on Life Insurance Costs that:

> . . . the correlation of actual . . . cost rankings with the rankings determined by current scale dividends at the beginning of the period is good enough to make comparisons worthwhile, but not good enough to justify elaborate comparison processes.

DIVIDEND ILLUSTRATION PHILOSOPHIES
(Highlights of Report on Research Project 7)

The Special Committee of the Society of Actuaries developed a questionnaire which asked for voluntary response from the actuaries as individuals. One hundred and eleven completed questionnaires were returned by the actuaries of as many companies.

There is considerable, but not unanimous, agreement that dividend illustrations should not "knowingly" be different from what is "known" to actually be payable in the short run, even though such dividend illustrations might be all that is permitted by existing regulations.

Nearly all respondents felt dividends should be included in cost comparisons. The majority didn't believe that the dividend cash flow should be separately identified in any manner. A fairly large minority felt dividends should be separately identified, but they had differing views on how they should be shown and described.

A substantial majority of respondents believed there will be increased pressure on the actuary to produce more liberal dividend illustrations for new business if the consumer is taught to cost-shop and compare costs on some widely accepted basis mandated by law or regulation. Whether this would be good or bad, and just what the implications would be, was a matter of rather diverse opinion.

A large majority of the respondents opposed the establishment of a method prescribed by regulatory authorities or by an actuarial body for calculating dividends and their illustrations. However, approximately half of the respondents felt there could be a need for a prescribed method for the use of dividend illustrations.

THE "MANIPULATION" ISSUE
(Highlights of Report on Research Project 12)

The word "Manipulation" is taken to mean a form of masquerade in which unreasonable advantage is taken of whatever cost comparison system happens to be in current use, aiming to lead the uninformed to suppose that a policy is more attractively priced than it genuinely is.

This Report observes that curbing of manipulation may be undertaken in either of two ways:

(a) By providing buyers with data enabling them to recognize it;

(b) By regulatory action that keeps manipulated policies off the market.

The proposal is that the second of these two approaches be adopted.

This leads to the suggestion that two, not one, of the cost comparison methods under consideration be endorsed by the NAIC. For the authorities in their determination whether or not a particular policy should be approved for issue, a refined year-by-year analysis can be valuable. But for buyers and their advisors the simplest available valid method appears to be sufficient and may be the most acceptable.

Attention is drawn to the marked similarity among the messages conveyed about the attractiveness of any particular policy by almost all the leading cost comparison methods except the Traditional Method.

VARIABLE LIFE INSURANCE AND VARIABLE ANNUITIES (C4) SUBCOMMITTEE

Reference:
1974 Proc. Vol. II p. 537
1974 Proc. Vol. I p. 751

Hon. James M. Jackson, Chairman – Nebraska
Hon. Jay W. Jackson, Vice-Chairman – Connecticut

AGENDA

1. Receive status report of variable life insurance seminars held in conjunction with zone meetings.
2. Consider any revisions of the adopted commentary to the model variable life insurance regulation.
3. Receive updated analysis concerning the sufficiency of the reserve underlying the minimum death benefit.
4. Consider New York's suggested revision of Article 7, Section 8 of the model variable life insurance regulation.
5. Receive amendment recommendations to Article 4, Section 3(f) of the model variable life insurance regulation.
6. Current status of the latest SEC releases.
7. Any other matters brought before the Subcommittee.

The Variable Life Insurance and Variable Annuities (C4) Subcommittee was called to order at 1:30 p.m., Monday, June 9, 1975, in the Regents Room of the Olympic Hotel in Seattle, Washington.

The Chairman gave a status report on the variable life insurance seminars held in conjunction with zone meetings as the first order of business.

The next order of business was any revisions of the Commentary to the Model Variable Life Insurance Regulation. The Chairman of the industry advisory committee advised the subcommittee he had no requests from advisory committee members or others to change any specifics of the Commentary.

Mr. Richard Mink, ALIA, next presented an analysis of the updating of the sufficiency of reserves underlying the minimum death benefit. The tables presented by Mr. Mink are attached to this report.

Mr. Alpert of the New York Insurance Department presented three proposals relating to suggested revisions in the model Variable Life Insurance Regulation. These suggestions are attached to this report.

The Chairman then gave a review of the current status of the NAIC in relation to Securities and Exchange Commission regarding Variable Life Insurance, including correspondence with the Chairman of the Commission and the Chairman of the (C4) Subcommittee.

No other matters were presented to the subcommittee. The general session of the subcommittee was then adjourned.

In executive session, the subcommittee adopted as final the Commentary on Variable Life Insurance Regulation with the observation that the Commentary is not itself a part of the Regulation but should be used as an explanatory tool in interpreting various provisions of the Regulation and understanding the Regulation's historical development. It appears in 1975 Proc. I 792-852.

Mr. Mink's updated analysis relating to reserves and minimum death benefit was received for consideration by the subcommittee.

The three comments by the New York Insurance Department were then received for consideration by the subcommittee.

As there was no other business to come before the subcommittee, the meeting was then adjourned.

Hon. James M. Jackson, Chairman, Nebraska; Hon. Jay W. Jackson, Vice-Chairman, Connecticut; Hon. Ark Monroe III, Arkansas; Hon. Wesley J. Kinder, California; Hon. Maximilian Wallach, District of Columbia; Hon. Manuel A. Chaco, Guam; Hon. Lloyd M. Allen, Indiana; Hon. Daniel J. Demlow, Michigan; Hon. Berton W. Heaton, Minnesota; New York; Hon. Gerald Grimes, Oklahoma.

Exhibit B

Relationship of Stock Prices and Dividends to Gross National Product

(amounts in billions of dollars)

Year	Gross National Product (1)	Stock Dividends (2)	Ratio of Stock Dividends to Prices based on S&P 500 (3)	Estimated Stock Prices (2)÷(3) (4)	Ratio of Stock Dividends to GNP = (2)÷(1) (5)	Ratio of Stock Prices to GNP = (4)÷(1) (6)
1929	$103.095	$5.801	3.47%	$167.176	5.63%	162%
1930	90.367	5.468	4.51	121.242	6.05	134
1931	75.820	4.066	6.15	66.114	5.36	87
1932	58.049	2.544	7.43	34.240	4.38	59
1933	55.601	2.038	4.21	48.409	3.67	87
1934	65.054	2.567	3.72	69.005	3.95	106
1935	72.247	2.844	3.82	74.450	3.94	103
1936	82.481	4.523	3.44	131.483	5.48	159
1937	90.446	4.660	4.86	95.885	5.15	106
1938	84.670	3.165	5.18	61.100	3.74	72
1939	90.494	3.766	4.05	92.988	4.16	103
1940	99.678	4.016	5.59	71.843	4.03	72
1941	124.540	4.431	6.82	64.971	3.56	52
1942	157.910	4.254	7.24	58.757	2.69	37
1943	191.592	4.446	4.93	90.183	2.32	47
1944	210.104	4.617	4.86	95.000	2.20	45
1945	211.945	4.600	4.17	110.312	2.17	52
1946	208.509	5.574	3.85	144.779	2.67	69
1947	231.323	6.321	4.93	128.215	2.73	55
1948	257.562	7.036	5.54	127.004	2.73	49
1949	256.484	7.238	6.59	109.833	2.82	43
1950	284.769	8.838	6.57	134.521	3.10	47
1951	328.404	8.570	6.13	139.804	2.61	43
1952	345.498	8.560	5.80	147.586	2.48	43
1953	364.593	8.886	5.80	153.207	2.44	42
1954	364.841	9.282	4.95	187.515	2.54	51
1955	397.960	10.478	4.08	256.814	2.63	65
1956	419.238	11.280	4.09	275.795	2.69	66
1957	441.134	11.742	4.35	269.931	2.66	61
1958	447.334	11.566	3.97	291.335	2.59	65
1959	483.663	12.580	3.23	389.474	2.60	81
1960	503.734	13.437	3.47	387.233	2.67	77
1961	520.097	13.770	2.98	462.081	2.65	89
1962	560.325	15.183	3.37	450.534	2.71	80
1963	590.503	16.454	3.17	519.054	2.79	88
1964	632.410	17.811	3.01	591.728	2.82	94
1965	684.884	19.808	3.00	660.267	2.89	96
1966	749.857	20.797	3.40	611.676	2.77	82
1967	793.927	21.385	3.20	668.281	2.69	84
1968	864.202	23.552	3.07	767.166	2.73	89
1969	929.095	24.444	3.24	754.444	2.63	81
1970	974.126	25.004	3.83	652.846	2.57	67
1971	1046.800	25.500	3.14	812.102	2.44	78
1972	1158.000	27.346	2.84	962.887	2.36	83
1973	1294.920	29.582	3.06	966.732	2.28	75
1974	1397.300	32.700	4.47	731.544	2.34	52

Exhibit F1a

Proposed MDBG Reserve System for NEW YORK LIFE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1915 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ¼ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Cumulative		Retrospective Accumulation Where Annual Allocations are			Two Part Minimum Reserve		Actual MDBG Reserve Where Annual Allocations are		
	Basic Net Premiums (1)	Actual MDBG Claims (2)	1% of Net Premiums (3)	2% of Net Premiums (4)	4% of Net Premiums (5)	One Year Term 1/3 Drop (6)	Attained Age Level (7)	1% of Net Premiums (8)	2% of Net Premiums (9)	4% of Net Premiums (10)
1916	$ 1,620	$ 0	$ 16	$ 32	$ 64	$ 148	$ 0	$ 148	$ 148	$ 148
1917	4,736	2	46	93	188	232	0	232	232	232
1918	9,408	42	52	146	334	367	32	367	367	367
1919	15,727	42	116	273	588	305	0	305	305	588
1920	23,800	80	158	396	872	595	26	595	595	872
1921	33,752	255	82	420	1,095	879	206	879	879	1,095
1922	45,724	255	202	659	1,573	609	0	609	659	1,573
1923	59,874	261	337	936	2,133	903	0	903	936	2,133
1924	76,379	261	503	1,267	2,795	819	0	819	1,267	2,795
1925	95,438	261	694	1,648	3,557	436	0	694	1,648	3,557
1926	117,273	261	911	2,084	4,429	494	0	911	2,084	4,429
1927	142,129	261	1,161	2,582	5,425	492	0	1,161	2,582	5,425
1928	170,277	261	1,442	3,145	6,551	463	0	1,442	3,145	6,551
1929	202,018	261	1,759	3,779	7,819	421	0	1,759	3,779	7,819
1930	237,683	415	1,962	4,339	9,093	1,363	93	1,962	4,339	9,093
1931	277,638	1,298	1,479	4,255	9,808	3,549	983	3,549	4,255	9,808
1932	322,285	5,003	-1,780	1,443	7,889	7,738	6,159	7,738	7,738	7,889
1933	372,068	5,594	-1,874	1,847	9,288	4,615	5,032	5,032	5,032	9,288
1934	427,476	6,876	-2,601	1,674	10,224	6,432	5,160	6,432	6,432	10,224
1935	489,048	6,916	-2,025	2,865	12,646	4,350	3,607	4,350	4,350	12,646
1936	557,377	6,916	-1,342	4,232	15,380	1,098	147	1,098	4,232	15,380
1937	633,117	6,916	-585	5,746	18,408	1,439	0	1,439	5,746	18,408
1938	716,986	7,455	-285	6,885	21,225	6,953	417	6,953	6,953	21,225
1939	809,776	7,881	217	8,315	24,511	8,362	470	8,362	8,362	24,511
1940	912,357	9,715	-592	8,532	26,779	12,145	2,870	12,145	12,145	26,779
1941	1,025,688	10,703	-446	9,811	30,325	12,386	2,826	12,386	12,386	30,325
1942	1,150,822	14,532	-3,024	8,484	31,500	17,007	7,182	17,007	17,007	31,500
1943	1,288,919	14,532	-1,643	11,246	37,024	8,914	925	8,914	11,246	37,024
1944	1,441,255	14,532	-120	14,293	43,118	7,696	0	7,696	14,293	43,118
1945	1,609,233	14,532	1,561	17,653	49,838	4,328	0	4,328	17,653	49,838
1946	1,794,399	14,532	3,412	21,356	57,244	3,046	0	3,412	21,356	57,244
1947	1,998,452	14,821	5,163	25,148	65,117	8,104	155	8,104	25,148	65,117
1948	2,223,262	14,881	7,351	29,584	74,049	9,999	69	9,999	29,584	74,049
1949	2,470,886	15,124	9,585	34,294	83,712	14,357	238	14,357	34,294	83,712
1950	2,743,588	15,124	12,312	39,748	94,620	8,671	0	12,312	39,748	94,620
1951	3,043,858	15,124	15,314	45,753	106,630	4,413	0	15,314	45,753	106,630
1952	3,374,436	15,124	18,621	52,365	119,854	5,381	0	18,621	52,365	119,854
1953	3,738,336	15,147	22,237	59,620	134,387	9,611	18	22,237	59,620	134,387
1954	4,138,874	15,147	26,241	67,630	150,407	7,153	0	26,241	67,630	150,407
1955	4,579,698	15,147	30,650	76,447	168,041	5,234	18	30,650	76,447	168,041
1956	5,064,822	15,147	35,501	86,149	187,445	7,546	25	35,501	86,149	187,445
1957	5,598,661	15,276	40,710	96,697	208,670	13,350	41	40,710	96,697	208,670
1958	6,186,073	15,439	46,421	108,282	232,003	19,717	130	46,421	108,282	232,003
1959	6,832,401	15,439	52,885	121,209	257,857	13,565	0	52,885	121,209	257,857
1960	7,543,524	16,080	59,355	134,790	285,660	27,425	317	59,355	134,790	285,660
1961	8,325,909	16,080	67,179	150,438	316,956	21,618	0	67,179	150,438	316,956
1962	9,186,670	18,083	73,783	165,650	349,383	44,551	1,427	73,783	165,650	349,383
1963	10,133,634	18,083	83,254	184,590	387,263	34,877	0	83,254	184,590	387,263
1964	11,175,410	18,083	93,671	205,425	428,933	25,004	0	93,671	205,425	428,933
1965	12,321,470	18,083	105,131	228,346	474,775	37,741	17	105,131	228,346	474,775
1966	13,582,232	18,585	117,238	253,060	524,705	57,198	313	117,238	253,060	524,705
1967	14,969,157	18,585	131,106	280,798	580,181	49,291	11	131,106	280,798	580,181
1968	16,494,853	18,585	146,363	311,312	641,209	62,310	0	146,363	311,312	641,209
1969	18,173,189	20,799	160,933	342,665	706,129	99,423	1,584	160,933	342,665	706,129
1970	20,019,421	42,394	157,800	357,994	758,382	164,797	27,850	164,797	357,994	758,382
1971	22,050,332	42,394	178,110	398,613	839,620	114,777	5,138	178,110	398,613	839,620
1972	24,284,384	42,394	200,450	443,294	928,981	99,044	0	200,450	443,294	928,981
1973	26,741,885	42,394	225,025	492,444	1,027,281	131,199	0	225,025	492,444	1,027,281
1974	29,445,175	101,953	192,499	486,951	1,075,854	306,462	88,168	306,462	486,951	1,075,854

Exhibit F1b

Proposed MDBG Reserve System for NEW YORK LIFE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1925 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Cumulative		Retrospective Accumulation Where Annual Allocations Are			Two Part Minimum Reserve		Actual MDBG Reserve Where Annual Allocations Are		
	Basic Net Premiums (1)	Actual MDBG Claims (2)	1% of Net Premium (3)	2% of Net Premium (4)	4% of Net Premium (5)	One Year Term 1/3 Drop (6)	Attained Age Level (7)	1% of Net Premium (8)	2% of Net Premium (9)	4% of Net Premium (10)
1926	$ 1,620	$ 0	$ 16	$ 32	$ 64	$ 150	$ 0	$ 150	$ 150	$ 150
1927	4,736	0	48	95	190	182	0	182	182	190
1928	9,408	0	94	188	376	179	0	179	188	376
1929	15,727	0	157	315	630	162	0	162	315	630
1930	23,800	59	179	417	893	520	36	520	520	893
1931	33,752	385	-48	290	965	1,023	358	1,023	1,023	1,023
1932	45,724	1,205	-748	-291	623	1,678	1,060	1,678	1,678	1,678
1933	59,874	1,377	-779	-180	1,017	1,079	951	1,079	1,079	1,079
1934	76,379	1,699	-935	-171	1,357	1,546	965	1,546	1,546	1,546
1935	95,438	1,714	-759	195	2,104	1,133	807	1,133	1,133	2,104
1936	117,273	1,714	-542	631	2,976	409	54	409	631	2,976
1937	142,129	1,714	-292	1,129	3,972	555	0	555	1,129	3,972
1938	170,277	1,922	-219	1,484	4,890	2,241	161	2,241	2,241	4,890
1939	202,018	2,086	-66	1,954	5,994	2,685	181	2,685	2,685	5,994
1940	237,683	2,747	-370	2,007	6,761	3,781	1,016	3,781	3,781	6,761
1941	277,638	3,111	-334	2,442	7,995	3,920	1,001	3,920	3,920	7,995
1942	322,285	4,384	-1,161	2,062	8,508	5,335	2,360	5,335	5,335	8,508
1943	372,068	4,384	-664	3,057	10,498	3,003	356	3,003	3,057	10,498
1944	427,476	4,384	-109	4,166	12,716	2,754	0	2,754	4,166	12,716
1945	489,048	4,384	507	5,397	15,178	1,660	0	1,660	5,397	15,178
1946	557,377	4,384	1,190	6,764	17,912	1,174	0	1,190	6,764	17,912
1947	633,117	4,495	1,836	8,167	20,829	3,124	60	3,124	8,167	20,829
1948	716,986	4,518	2,652	9,822	24,162	3,855	26	3,855	9,822	24,162
1949	809,776	4,612	3,486	11,584	27,780	5,529	92	5,529	11,584	27,780
1950	912,357	4,612	4,511	13,635	31,882	3,343	0	4,511	13,635	31,882
1951	1,025,688	4,612	5,645	15,902	36,416	1,701	0	5,645	15,902	36,416
1952	1,150,822	4,612	6,896	18,404	41,420	2,075	0	6,896	18,404	41,420
1953	1,288,919	4,621	8,268	21,157	46,935	3,705	7	8,268	21,157	46,935
1954	1,441,255	4,621	9,791	24,204	53,029	2,758	0	9,791	24,204	53,029
1955	1,609,233	4,621	11,472	27,564	59,749	2,018	7	11,472	27,564	59,749
1956	1,794,399	4,621	13,323	31,267	67,155	2,909	10	13,323	31,267	67,155
1957	1,998,452	4,671	15,313	35,298	75,267	5,147	16	15,313	32,298	75,267
1958	2,223,262	4,734	17,498	39,731	84,196	7,602	50	17,498	39,731	84,196
1959	2,470,886	4,734	19,975	44,684	94,102	5,230	0	19,975	44,684	94,102
1960	2,743,588	4,981	22,455	49,891	104,763	10,574	122	22,455	49,891	104,763
1961	3,043,858	4,981	25,457	55,896	116,773	8,335	0	25,457	55,896	116,773
1962	3,374,436	5,753	27,992	61,736	129,225	17,176	550	27,992	61,736	129,225
1963	3,738,336	5,753	31,631	69,014	143,781	13,447	0	31,631	69,014	143,781
1964	4,138,874	5,753	35,635	77,024	159,801	9,640	0	35,635	77,024	159,801
1965	4,579,698	5,753	40,044	85,841	177,435	14,551	7	40,044	85,841	177,435
1966	5,064,822	5,946	44,702	95,350	196,646	22,052	121	44,702	95,350	196,646
1967	5,598,661	5,946	50,040	106,027	218,000	19,004	0	50,040	106,027	218,000
1968	6,186,073	5,946	55,914	117,775	241,496	24,023	0	55,914	117,775	241,496
1969	6,832,401	6,800	61,524	129,848	266,496	38,332	611	61,524	129,848	266,496
1970	7,543,524	15,126	60,309	135,744	286,614	63,536	10,737	63,536	135,744	286,614
1971	8,325,909	15,126	68,133	151,392	317,910	44,251	1,981	68,133	151,392	317,910
1972	9,186,670	15,126	76,741	168,607	352,341	38,186	0	76,741	168,607	352,341
1973	10,133,634	15,126	86,210	187,547	390,219	50,583	0	86,210	187,547	390,219
1974	11,175,410	38,088	73,666	185,420	408,928	118,154	33,993	118,154	185,420	408,928

Exhibit Flc

Proposed MDBG Reserve System for NEW YORK LIFE Design

Model Company Issuing Variable Whole Life Policies to Males Commencing Business in July 1945 With $100 Million of Issues Increasing 10% Per Year Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index, Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted, on 1958 CSO Male 3% Traditional Net Level Reserve Basis

(amounts in thousands of dollars)

Policy Year Ending July	Cumulative		Retrospective Accumulation Where Annual Allocations Are			Two Part Minimum Reserve		Actual MDBG Reserve Where Annual Allocations Are		
	Basic Net Premiums (1)	Actual MDBG Claims (2)	1% of Net Premium (3)	2% of Net Premium (4)	4% of Net Premium (5)	One Year Term 1/3 Drop (6)	Attained Age Level (7)	1% of Net Premium (8)	2% of Net Premium (9)	4% of Net Premium (10)
1946	$ 1,620	$ 0	$ 16	$ 32	$ 64	$ 144	$ 0	$ 144	$ 144	$ 144
1947	4,736	17	31	78	173	251	9	251	251	251
1948	9,408	20	74	168	356	330	0	330	330	356
1949	15,727	34	124	281	596	452	14	452	452	596
1950	23,800	34	204	442	918	405	0	405	442	918
1951	33,752	34	303	641	1,316	253	0	303	641	1,316
1952	45,724	34	423	880	1,794	308	0	423	880	1,794
1953	59,874	35	563	1,162	2,359	551	0	563	1,162	2,359
1954	76,379	35	729	1,493	3,021	410	0	729	1,493	3,021
1955	95,438	35	920	1,874	3,783	300	0	920	1,874	3,783
1956	117,273	35	1,137	2,310	4,655	432	0	1,137	2,310	4,655
1957	142,129	42	1,380	2,801	5,644	765	0	1,380	2,801	5,644
1958	170,277	51	1,652	3,355	6,761	1,130	8	1,652	3,355	6,761
1959	202,018	51	1,969	3,989	8,029	777	0	1,969	3,989	8,029
1960	237,683	88	2,289	4,666	9,420	1,572	18	2,289	4,666	9,420
1961	277,638	88	2,689	5,465	11,018	1,239	0	2,689	5,465	11,018
1962	322,285	203	3,020	6,243	12,689	2,553	82	3,020	6,243	12,689
1963	372,068	203	3,517	7,238	14,679	1,999	0	3,517	7,238	14,679
1964	427,476	203	4,072	8,347	16,897	1,433	0	4,072	8,347	16,897
1965	489,048	203	4,688	9,578	19,359	2,163	0	4,688	9,578	19,359
1966	557,377	232	5,342	10,916	22,064	3,278	18	5,342	10,916	22,064
1967	633,117	232	6,099	12,430	25,092	2,825	0	6,099	12,430	25,092
1968	716,986	232	6,938	14,108	28,448	3,571	0	6,938	14,108	28,448
1969	809,776	359	7,739	15,837	32,033	5,698	91	7,739	15,837	32,033
1970	912,357	1,597	7,526	16,650	34,897	9,444	1,596	9,444	16,650	34,897
1971	1,025,688	1,597	8,660	18,917	39,431	6,578	295	8,660	18,917	39,431
1972	1,150,822	1,597	9,911	21,419	44,436	5,676	0	9,911	21,419	44,436
1973	1,288,919	1,597	11,292	24,181	49,960	7,519	0	11,292	24,181	49,960
1974	1,441,255	5,010	9,403	23,815	52,640	17,563	5,053	17,563	23,815	52,640

Exhibit F3a

Proposed MDBG Reserve System for EQUITABLE TYPE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1915 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Cumulative		Retrospective Accumulation Where Annual Allocations are			Two Part Minimum Reserve		Actual MDBG Reserve Where Annual Allocations are		
	Basic Net Premiums (1)	Actual MDBG Claims (2)	0.2% of Net Premiums (3)	0.4% of Net Premiums (4)	2% of Net Premiums (5)	One Year Term 1/3 Drop (6)	Attained Age Level (7)	0.2% of Net Premiums (8)	0.4% of Net Premiums (9)	2% of Net Premiums (10)
1916	$ 1,620	$ 0	$ 3	$ 6	$ 32	$ 2	$ 0	$ 3	$ 6	$ 32
1917	4,736	0	10	19	95	11	0	11	19	95
1918	9,408	3	16	35	186	30	34	34	35	186
1919	15,727	3	29	60	312	21	0	29	60	312
1920	23,800	5	42	90	471	70	24	70	90	471
1921	33,752	30	37	105	645	133	224	224	224	645
1922	45,724	30	62	153	885	84	11	84	153	885
1923	59,874	30	89	209	1,167	142	0	142	209	1,167
1924	76,379	30	123	276	1,498	114	0	123	276	1,498
1925	95,438	30	161	352	1,879	10	0	161	352	1,879
1926	117,273	30	204	439	2,315	10	0	204	439	2,315
1927	142,129	30	255	539	2,813	9	0	255	539	2,813
1928	170,277	30	310	651	3,375	3	0	310	651	3,375
1929	202,018	30	374	778	4,010	0	0	374	778	4,010
1930	237,683	38	438	913	4,716	101	91	438	913	4,716
1931	277,638	133	423	978	5,420	551	920	920	978	5,420
1932	322,285	1,026	-382	263	5,420	2,259	6,256	6,256	6,256	6,256
1933	372,068	1,198	-454	290	6,243	1,292	5,607	5,607	5,607	6,243
1934	427,476	1,554	-699	156	6,996	1,967	7,074	7,074	7,074	7,074
1935	489,048	1,606	-628	350	8,175	1,208	5,926	5,926	5,926	8,175
1936	557,377	1,606	-491	624	9,542	158	1,727	1,727	1,727	9,542
1937	633,117	1,606	-340	926	11,056	111	0	111	926	11,056
1938	716,986	1,643	-209	1,225	12,697	1,609	415	1,609	1,609	12,697
1939	809,776	1,695	-76	1,544	14,500	2,146	781	2,146	2,146	14,500
1940	912,357	2,128	-304	1,521	16,119	3,787	3,350	3,787	3,787	16,119
1941	1,025,688	2,445	-393	1,658	18,069	3,967	4,613	4,613	4,613	18,069
1942	1,150,822	3,648	-1,347	955	19,368	6,074	9,717	9,717	9,717	19,368
1943	1,288,919	3,648	-1,070	1,508	22,131	2,734	3,938	3,938	3,938	22,131
1944	1,441,255	3,648	-766	2,117	25,177	1,976	590	1,976	2,117	25,117
1945	1,609,233	3,648	-429	2,789	28,537	489	0	489	2,789	28,537
1946	1,794,399	3,648	-59	3,530	32,240	62	0	62	3,530	32,240
1947	1,998,452	3,662	335	4,332	36,307	746	166	746	4,332	36,307
1948	2,223,262	3,674	772	5,219	40,791	1,106	211	1,106	5,219	40,791
1949	2,470,886	3,697	1,245	6,187	45,721	2,190	408	2,190	6,187	45,721
1950	2,743,588	3,697	1,790	7,277	51,174	888	0	1,790	7,277	51,174
1951	3,043,858	3,697	2,390	8,478	57,180	25	0	2,390	8,478	57,180
1952	3,374,436	3,697	3,052	9,801	63,792	109	0	3,052	9,801	63,792
1953	3,738,336	3,697	3,779	11,256	71,069	510	0	3,779	11,256	71,069
1954	4,138,874	3,697	4,580	12,858	79,080	225	0	4,580	12,858	79,080
1955	4,579,698	3,697	5,463	14,622	87,897	0	0	5,463	14,622	87,897
1956	5,064,822	3,697	6,432	16,562	97,599	111	0	6,432	16,562	97,599
1957	5,598,661	3,697	7,501	18,698	108,277	703	79	7,501	18,698	108,277
1958	6,186,073	3,697	8,675	21,047	120,024	1,610	198	8,675	21,047	120,024
1959	6,832,401	3,697	9,968	23,633	132,951	681	0	9,968	23,633	132,951
1960	7,543,524	3,738	11,349	26,436	147,132	2,827	414	11,349	26,436	147,132
1961	8,325,909	3,738	12,914	29,566	162,781	1,712	6	12,914	29,566	162,781
1962	9,186,670	3,867	14,507	32,880	179,867	6,215	1,424	14,507	32,880	179,867
1963	10,133,634	3,867	16,401	36,668	198,806	4,140	0	16,401	36,668	198,806
1964	11,175,410	3,867	18,484	40,835	219,642	1,451	0	18,484	40,835	219,642
1965	12,321,470	3,867	20,776	45,419	242,563	3,249	0	20,776	45,419	242,563
1966	13,582,232	3,867	23,298	50,462	267,778	7,213	358	23,298	50,462	267,778
1967	14,969,157	3,867	26,072	56,010	295,517	4,976	21	26,072	56,010	295,517
1968	16,494,853	3,867	29,122	62,112	326,030	7,173	0	29,122	62,112	326,030
1969	18,173,189	3,996	32,351	68,697	359,468	16,157	1,533	32,351	68,697	359,468
1970	20,019,421	6,929	33,110	73,149	393,460	37,144	25,182	37,144	73,149	393,460
1971	22,050,332	6,929	37,171	81,272	434,077	21,762	5,791	37,171	81,272	434,077
1972	24,284,384	6,929	41,640	90,209	478,759	15,772	0	41,640	90,209	478,759
1973	26,741,885	6,929	46,555	100,039	527,909	22,786	0	46,555	100,039	527,909
1974	29,445,175	17,641	41,249	100,140	571,263	84,183	79,866	84,183	100,140	571,263

Exhibit F3b

Proposed MDBG Reserve System for EQUITABLE TYPE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1925 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Cumulative		Retrospective Accumulation Where Annual Allocations Are			Two Part Minimum Reserve		Actual MDBG Reserve Where Annual Allocations Are		
	Basic Net Premiums (1)	Actual MDBG Claims (2)	0.2% of Net Premiums (3)	0.4% of Net Premiums (4)	2% of Net Premiums (5)	One Year Term 1/3 Drop (6)	Attained Age Level (7)	0.2% of Net Premiums (8)	0.4% of Net Premiums (9)	2% of Net Premiums (10)
1926	$ 1,620	$ 0	$ 3	$ 6	$ 32	$ 2	$ 0	$ 3	$ 6	$ 32
1927	4,736	0	10	19	95	4	0	10	19	95
1928	9,408	0	19	38	189	1	0	19	38	189
1929	15,727	0	32	63	315	0	0	32	63	315
1930	23,800	3	44	92	473	39	35	44	92	473
1931	33,752	40	27	95	635	153	355	355	355	635
1932	45,724	177	-85	6	738	322	1,264	1,264	1,264	1,264
1933	59,874	234	-115	5	963	242	1,466	1,466	1,466	1,466
1934	76,379	332	-179	-26	1,196	353	1,909	1,909	1,909	1,909
1935	95,438	352	-161	30	1,557	271	1,794	1,794	1,794	1,794
1936	117,273	352	-118	117	1,993	58	654	654	654	1,993
1937	142,129	352	-67	217	2,491	43	0	43	217	2,491
1938	170,277	366	-26	315	3,039	484	160	484	484	3,039
1939	202,018	386	18	422	3,654	642	301	642	642	3,654
1940	237,683	546	-70	405	4,208	1,028	1,258	1,258	1,258	4,208
1941	277,638	666	-110	445	4,887	1,121	1,742	1,742	1,742	4,887
1942	322,285	1,070	-426	219	5,376	1,651	3,502	3,502	3,502	5,376
1943	372,068	1,070	-326	418	6,371	897	1,518	1,518	1,518	6,371
1944	427,476	1,070	-215	640	7,480	696	227	696	696	7,480
1945	489,048	1,070	-92	886	8,711	189	0	189	886	8,711
1946	557,377	1,070	45	1,160	10,078	24	0	45	1,160	10,078
1947	633,117	1,076	190	1,456	11,586	288	64	288	1,456	11,586
1948	716,986	1,081	353	1,787	13,259	426	81	426	1,787	13,259
1949	809,776	1,090	529	2,149	15,105	844	158	844	2,149	15,105
1950	912,357	1,090	734	2,559	17,157	342	0	734	2,559	17,157
1951	1,025,688	1,090	962	3,013	19,424	10	0	962	3,013	19,424
1952	1,150,822	1,090	1,211	3,513	21,926	42	0	1,211	3,513	21,926
1953	1,288,919	1,090	1,488	4,066	24,689	197	0	1,488	4,066	24,689
1954	1,441,255	1,090	1,792	4,675	27,735	87	0	1,792	4,675	27,735
1955	1,609,233	1,090	2,129	5,347	31,095	0	0	2,129	5,347	31,095
1956	1,794,399	1,090	2,499	6,088	34,798	43	0	2,499	6,088	34,798
1957	1,998,452	1,090	2,907	6,904	38,879	271	30	2,907	6,904	38,879
1958	2,223,262	1,090	3,356	7,803	43,375	621	76	3,356	7,803	43,375
1959	2,470,886	1,090	3,852	8,794	48,328	263	0	3,852	8,794	48,328
1960	2,743,588	1,106	4,381	9,868	53,765	1,090	160	4,381	9,868	53,765
1961	3,043,858	1,106	4,981	11,069	59,771	660	0	4,981	11,069	59,771
1962	3,374,436	1,156	5,593	12,342	66,333	2,396	549	5,593	12,342	66,333
1963	3,738,336	1,156	6,320	13,797	73,610	1,596	0	6,320	13,797	73,610
1964	4,138,874	1,156	7,121	15,399	81,621	559	0	7,121	15,399	81,621
1965	4,579,698	1,156	8,004	17,163	90,438	1,253	0	8,004	17,163	90,438
1966	5,064,822	1,156	8,973	19,103	100,140	2,781	138	8,973	19,103	100,140
1967	5,598,661	1,156	10,042	21,239	110,818	1,919	8	10,042	21,239	110,818
1968	6,186,073	1,156	11,216	23,588	122,565	2,766	0	11,216	23,588	122,565
1969	6,832,401	1,206	12,459	26,124	135,442	6,229	591	12,459	26,124	135,442
1970	7,543,524	2,337	12,750	27,837	148,533	14,321	9,709	14,321	27,837	148,533
1971	8,325,909	2,337	14,315	30,967	164,182	8,390	2,233	14,315	30,967	164,182
1972	9,186,670	2,337	16,036	34,410	181,396	6,081	0	16,036	34,410	181,396
1973	10,133,634	2,337	17,930	38,198	200,336	8,785	0	17,930	38,198	200,336
1974	11,175,410	6,467	15,884	38,235	217,041	32,456	30,792	32,456	38,235	217,041

Exhibit F3c

Proposed MDBG Reserve System for EQUITABLE TYPE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1945 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis

(amounts in thousands of dollars)

Policy Year Ending July	Cumulative Basic Net Premiums (1)	Cumulative Actual MDBG Claims (2)	Retrospective Accumulation Where Annual Allocations are 0.2% of Net Premium (3)	Retrospective Accumulation Where Annual Allocations are 0.4% of Net Premium (4)	Retrospective Accumulation Where Annual Allocations are 2% of Net Premium (5)	Two Part Minimum Reserve One Year Term 1/3 Drop (6)	Two Part Minimum Reserve Attained Age Level (7)	Actual MDBG Reserve Where Annual Allocations are 0.2% of Net Premium (8)	Actual MDBG Reserve Where Annual Allocations are 0.4% of Net Premium (9)	Actual MDBG Reserve Where Annual Allocations are 2% of Net Premium (10)
1946	$ 1,620	$ 0	$ 3	$ 6	$ 32	$ 2	$ 0	$ 3	$ 6	$ 32
1947	4,736	1	9	18	94	13	9	13	18	94
1948	9,408	2	17	36	187	25	12	25	36	187
1949	15,727	3	29	60	312	45	23	45	60	312
1950	23,800	3	44	92	473	37	0	44	92	473
1951	33,752	3	64	132	672	1	0	64	132	672
1952	45,724	3	89	180	912	6	0	89	180	912
1953	59,874	3	116	236	1,194	29	0	116	236	1,194
1954	76,379	3	150	303	1,525	13	0	150	303	1,525
1955	95,438	3	188	379	1,906	0	0	188	379	1,906
1956	117,273	3	231	466	2,342	6	0	231	466	2,342
1957	142,129	3	282	566	2,840	40	5	282	566	2,840
1958	170,277	3	337	678	3,402	92	12	337	678	3,402
1959	202,018	3	401	805	4,037	39	0	401	805	4,037
1960	237,683	5	471	946	4,749	162	24	471	946	4,749
1961	277,638	5	551	1,106	5,548	98	0	551	1,106	5,548
1962	322,285	12	632	1,277	6,434	356	81	632	1,277	6,434
1963	372,068	12	732	1,476	7,429	237	0	732	1,476	7,429
1964	427,476	12	843	1,698	8,538	83	0	843	1,698	8,538
1965	489,048	12	966	1,944	9,769	186	0	966	1,944	9,769
1966	557,377	12	1,103	2,218	11,136	413	21	1,103	2,218	11,136
1967	633,117	12	1,254	2,520	12,650	285	0	1,254	2,520	12,650
1968	716,986	12	1,422	2,856	14,328	411	0	1,422	2,856	14,328
1969	809,776	19	1,600	3,220	16,176	926	88	1,600	3,220	16,176
1970	912,357	187	1,637	3,462	18,060	2,129	1,443	2,129	3,462	18,060
1971	1,025,688	187	1,865	3,916	20,327	1,247	331	1,865	3,916	20,327
1972	1,150,822	187	2,115	4,416	22,829	904	0	2,115	4,416	22,829
1973	1,288,919	187	2,391	4,969	25,591	1,306	0	2,391	4,969	25,591
1974	1,441,255	801	2,082	4,964	28,024	4,824	4,577	4,824	4,964	28,024

Exhibit Gla

Effect on Gains of Proposed MDBG Reserve System for NEW YORK LIFE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1915 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Charge (+) or Credit (-) Due to Retrospective Accumulation Where Annual Allocations Are			Additional Charge (+) or Credit (-) Due to Two Part Minimum Reserve Where Annual Allocations Are			Total Charge (+) or Credit (-) Where Annual Allocations Are		
	1% of Net Premiums (1)	2% of Net Premiums (2)	4% of Net Premiums (3)	1% of Net Premiums (4)	2% of Net Premiums (5)	4% of Net Premiums (6)	1% of Net Premiums (7)	2% of Net Premiums (8)	4% of Net Premiums (9)
1916	$ 16	$ 32	$ 64	$ 132	$ 116	$ 84	$ 148	$ 148	$ 148
1917	32	63	126	54	23	-40	86	86	86
1918	46	93	186	129	82	-11	175	175	175
1919	64	127	254	-126	-189	-33	-62	-62	221
1920	80	161	322	248	167	0	328	328	322
1921	99	199	398	360	260	0	459	459	398
1922	120	239	478	-390	-459	0	-270	-220	478
1923	141	283	566	159	0	0	300	283	566
1924	166	331	662	-250	0	0	-84	331	662
1925	191	381	762	-316	0	0	-125	381	762
1926	217	436	872	0	0	0	217	436	872
1927	250	498	996	0	0	0	250	498	996
1928	281	563	1,126	0	0	0	281	563	1,126
1929	317	634	1,268	0	0	0	317	634	1,268
1930	357	714	1,428	0	0	0	357	714	1,428
1931	400	799	1,598	2,070	0	0	2,470	799	1,598
1932	2,226	893	1,786	5,668	6,295	0	7,894	7,188	1,786
1933	591	995	1,990	-2,706	-3,110	0	-2,115	-2,115	1,990
1934	1,282	1,109	2,218	1,400	1,573	0	2,682	2,682	2,218
1935	40	1,231	2,462	-2,082	-3,273	0	-2,042	-2,042	2,462
1936	0	1,367	2,734	-3,252	-1,485	0	-3,252	-118	2,734
1937	0	1,514	3,028	341	0	0	341	1,514	3,028
1938	539	1,678	3,356	5,514	68	0	6,053	1,746	3,356
1939	643	1,856	3,712	1,192	-21	0	1,835	1,835	3,712
1940	1,617	2,051	4,102	4,000	3,566	0	5,617	5,617	4,102
1941	988	2,267	4,534	241	-1,038	0	1,229	1,229	4,534
1942	3,829	2,502	5,004	4,621	5,948	0	8,450	8,450	5,004
1943	0	2,762	5,524	-8,093	-8,523	0	-8,093	-5,761	5,524
1944	0	3,047	6,094	-1,218	0	0	-1,218	3,047	6,094
1945	1,561	3,360	6,720	-4,929	0	0	-3,368	3,360	6,720
1946	1,851	3,703	7,406	-2,767	0	0	-916	3,703	7,406
1947	2,040	4,081	8,162	2,941	0	0	4,981	4,081	8,162
1948	2,248	4,496	8,992	-293	0	0	1,955	4,496	8,992
1949	2,477	4,953	9,906	2,124	0	0	4,601	4,953	9,906
1950	2,727	5,454	10,908	-4,772	0	0	-2,045	5,454	10,908
1951	3,002	6,005	12,010	0	0	0	3,002	6,005	12,010
1952	3,307	6,612	13,224	0	0	0	3,307	6,612	13,224
1953	3,639	7,278	14,556	0	0	0	3,639	7,278	14,556
1954	4,004	8,010	16,020	0	0	0	4,004	8,010	16,020
1955	4,409	8,817	17,634	0	0	0	4,409	8,817	17,634
1956	4,851	9,702	19,404	0	0	0	4,851	9,702	19,404
1957	5,338	10,677	21,354	0	0	0	5,338	10,677	21,354
1958	5,874	11,748	23,496	0	0	0	5,874	11,748	23,496
1959	6,464	12,927	25,854	0	0	0	6,464	12,927	25,854
1960	7,111	14,222	28,444	0	0	0	7,111	14,222	28,444
1961	7,824	15,648	31,296	0	0	0	7,824	15,648	31,296
1962	8,607	17,215	34,430	0	0	0	8,607	17,215	34,430
1963	9,471	18,940	37,880	0	0	0	9,471	18,940	37,880
1964	10,417	20,835	41,670	0	0	0	10,417	20,835	41,670
1965	11,460	22,921	45,842	0	0	0	11,460	22,921	45,842
1966	12,609	25,216	50,432	0	0	0	12,609	25,216	50,432
1967	13,868	27,738	55,476	0	0	0	13,868	27,738	55,476
1968	15,257	30,514	61,028	0	0	0	15,257	30,514	61,028
1969	16,784	33,567	67,134	0	0	0	16,784	33,567	67,134
1970	18,462	36,924	73,848	7,017	0	0	25,459	36,924	73,848
1971	20,310	40,619	81,238	-7,017	0	0	13,313	40,619	81,238
1972	22,340	44,681	89,361	0	0	0	22,340	44,681	89,361
1973	24,575	49,150	98,300	0	0	0	24,575	49,150	98,300
1974	26,983	54,066	108,132	113,963	0	0	140,946	54,066	108,132

Note: In subdividing charges and credits between those due to the retrospective accumulation and those due to the two part minimum reserve, we have assumed that even without the two part minimum reserve, the retrospective accumulation would not be permitted to be negative. Therefore, the charge or credit due to the retrospective accumulation equals the year's MDBG claims plus the year's increase or decrease in the retrospective accumulation with any negative accumulation taken as zero for this purpose. The total charge or credit equals the year's MDBG claims plus the year's increase or decrease in the actual reserve held so that the additional charge or credit due to the two part minimum is the difference.

Exhibit G1b

Effect on Gains of Proposed MDBG Reserve System for NEW YORK LIFE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1925 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Charge (+) or Credit (-) Due to Retrospective Accumulation Where Annual Allocations Are			Additional Charge (+) or Credit (-) Due to Two Part Minimum Reserve Where Annual Allocations Are			Total Charge (+) or Credit (-) Where Annual Allocations Are		
	1% of Net Premiums (1)	2% of Net Premiums (2)	4% of Net Premiums (3)	1% of Net Premiums (4)	2% of Net Premiums (5)	4% of Net Premiums (6)	1% of Net Premiums (7)	2% of Net Premiums (8)	4% of Net Premiums (9)
1926	$ 16	$ 32	$ 64	$ 134	$ 118	$ 86	$ 150	$ 150	$ 150
1927	32	63	126	0	-31	-86	32	32	40
1928	46	93	186	-49	-87	0	-3	6	186
1929	64	127	254	-81	0	0	-17	127	254
1930	80	161	322	337	103	0	417	264	322
1931	147	199	398	682	630	58	829	829	456
1932	820	530	478	655	945	997	1,475	1,475	1,475
1933	172	172	566	-599	-599	-993	-427	-427	-427
1934	322	322	662	467	467	127	789	789	789
1935	15	210	762	-413	-608	-189	-398	-398	573
1936	0	436	872	-724	-938	0	-724	-502	872
1937	0	498	996	146	0	0	146	498	996
1938	208	563	1,126	1,686	757	0	1,894	1,320	1,126
1939	164	634	1,268	444	-26	0	608	608	1,268
1940	661	714	1,428	1,096	1,043	0	1,757	1,757	1,428
1941	364	799	1,598	139	-296	0	503	503	1,598
1942	1,273	893	1,786	1,415	1,795	0	2,688	2,688	1,786
1943	0	995	1,990	-2,332	-3,273	0	-2,332	-2,278	1,990
1944	0	1,109	2,218	-249	0	0	-249	1,109	2,218
1945	507	1,231	2,462	-1,601	0	0	-1,094	1,231	2,462
1946	683	1,367	2,734	-1,153	0	0	-470	1,367	2,734
1947	757	1,514	3,028	1,288	0	0	2,045	1,514	3,028
1948	839	1,678	3,356	-85	0	0	754	1,678	3,356
1949	928	1,856	3,712	840	0	0	1,768	1,856	3,712
1950	1,025	2,051	4,102	-2,043	0	0	-1,018	2,051	4,102
1951	1,134	2,267	4,534	0	0	0	1,134	2,267	4,534
1952	1,251	2,502	5,004	0	0	0	1,251	2,502	5,004
1953	1,381	2,762	5,524	0	0	0	1,381	2,762	5,524
1954	1,523	3,047	6,094	0	0	0	1,523	3,047	6,094
1955	1,681	3,360	6,720	0	0	0	1,681	3,360	6,720
1956	1,851	3,703	7,406	0	0	0	1,851	3,703	7,406
1957	2,040	4,081	8,162	0	0	0	2,040	4,081	8,162
1958	2,248	4,496	8,992	0	0	0	2,248	4,496	8,992
1959	2,477	4,953	9,906	0	0	0	2,477	4,953	9,906
1960	2,727	5,454	10,908	0	0	0	2,727	5,454	10,908
1961	3,002	6,005	12,010	0	0	0	3,002	6,005	12,010
1962	3,307	6,612	13,224	0	0	0	3,307	6,612	13,224
1963	3,639	7,278	14,556	0	0	0	3,639	7,278	14,556
1964	4,004	8,010	16,020	0	0	0	4,004	8,010	16,020
1965	4,409	8,817	17,634	0	0	0	4,409	8,817	17,634
1966	4,851	9,702	19,404	0	0	0	4,851	9,702	19,404
1967	5,338	10,677	21,354	0	0	0	5,338	10,677	21,354
1968	5,874	11,748	23,496	0	0	0	5,874	11,748	23,496
1969	6,464	12,927	25,854	0	0	0	6,464	12,927	25,854
1970	7,111	14,222	28,444	3,227	0	0	10,338	14,222	28,444
1971	7,824	15,648	31,296	-3,227	0	0	-19,285	15,648	31,296
1972	8,608	17,215	34,431	0	0	0	8,608	17,215	34,431
1973	9,469	18,940	37,878	0	0	0	9,470	18,940	37,878
1974	10,418	20,835	41,671	44,488	0	0	54,906	20,835	41,671

Note: In subdividing charges and credits between those due to the retrospective accumulation and those due to the two part minimum reserve, we have assumed that even without the two part minimum reserve, the retrospective accumulation would not be permitted to be negative. Therefore, the charge or credit due to the retrospective accumulation equals the year's MDBG claims plus the year's increase or decrease in the retrospective accumulation with any negative accumulation taken as zero for this purpose. The total charge or credit equals the year's MDBG claims plus the year's increase or decrease in the actual reserve held so that the additional charge or credit due to the two part minimum is the difference.

Exhibit G1c

Effect on Gains of Proposed MDBG Reserve System for NEW YORK LIFE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1945 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Charge (+) or Credit (-) Due to Retrospective Accumulation Where Annual Allocations Are			Additional Charge (+) or Credit (-) Due to Two Part Minimum Reserve Where Annual Allocations Are			Total Charge (+) or Credit (-) Where Annual Allocations Are		
	1% of Net Premiums (1)	2% of Net Premiums (2)	4% of Net Premiums (3)	1% of Net Premiums (4)	2% of Net Premiums (5)	4% of Net Premiums (6)	1% of Net Premiums (7)	2% of Net Premiums (8)	4% of Net Premiums (9)
1946	$ 16	$ 32	$ 64	$128	$112	$ 80	$ 144	$ 144	$ 144
1947	32	63	126	92	61	-2	124	124	124
1948	46	93	186	36	-11	-78	82	82	108
1949	64	127	254	72	9	0	136	136	254
1950	80	161	322	-127	-171	0	-47	-10	322
1951	99	199	398	-201	0	0	-102	199	398
1952	120	239	478	0	0	0	120	239	478
1953	141	283	566	0	0	0	141	283	566
1954	166	331	662	0	0	0	166	331	662
1955	191	381	762	0	0	0	191	381	762
1956	217	436	872	0	0	0	217	436	872
1957	250	498	996	0	0	0	250	498	996
1958	281	563	1,126	0	0	0	281	563	1,126
1959	317	634	1,268	0	0	0	317	634	1,268
1960	357	714	1,428	0	0	0	357	714	1,428
1961	400	799	1,598	0	0	0	400	799	1,598
1962	446	893	1,786	0	0	0	446	893	1,786
1963	497	995	1,990	0	0	0	497	995	1,990
1964	555	1,109	2,218	0	0	0	555	1,109	2,218
1965	616	1,231	2,462	0	0	0	616	1,231	2,462
1966	683	1,367	2,734	0	0	0	683	1,367	2,734
1967	757	1,514	3,028	0	0	0	757	1,514	3,028
1968	839	1,678	3,356	0	0	0	839	1,678	3,356
1969	928	1,856	3,712	0	0	0	928	1,856	3,712
1970	1,025	2,051	4,102	1,918	0	0	2,943	2,051	4,102
1971	1,134	2,267	4,534	-1,918	0	0	-784	2,267	4,534
1972	1,251	2,502	5,005	0	0	0	1,251	2,502	5,005
1973	1,381	2,762	5,524	0	0	0	1,381	2,762	5,524
1974	1,524	3,047	6,093	8,160	0	0	9,684	3,047	6,093

Note: In subdividing charges and credits between those due to the retrospective accumulation and those due to the two part minimum reserve, we have assumed that even without the two part minimum reserve, the retrospective accumulation would not be permitted to be negative. Therefore, the charge or credit due to the retrospective accumulation equals the year's MDBG claims plus the year's increase or decrease in the retrospective accumulation with any negative accumulation taken as zero for this purpose. The total charge or credit equals the year's MDBG claims plus the year's increase or decrease in the actual reserve held so that the additional charge or credit due to the two part minimum is the difference.

Exhibit G3a

Effect on Gains of Proposed MDBG Reserve System for EQUITABLE TYPE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1915 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Charges (+) or Credit (-) Due to Retrospective Accumulation Where Annual Allocations Are			Additional Charge (+) or Credit (-) Due to Two Part Minimum Reserve Where Annual Allocations Are			Total Charge (+) or Credit (-) Where Annual Allocations Are		
	0.2% of Net Premiums (1)	0.4% of Net Premiums (2)	2% of Net Premiums (3)	0.2% of Net Premiums (4)	0.4% of Net Premiums (5)	2% of Net Premiums (6)	0.2% of Net Premiums (7)	0.4% of Net Premiums (8)	2% of Net Premiums (9)
1916	$ 3	$ 6	$ 32	$ 0	$ 0	$ 0	$ 3	$ 6	$ 32
1917	7	13	63	1	0	0	8	13	63
1918	9	19	94	17	0	0	26	19	94
1919	13	25	126	-18	0	0	-5	25	126
1920	15	32	161	28	0	0	43	32	161
1921	20	40	199	159	119	0	179	159	199
1922	25	48	240	-165	-119	0	-140	-71	240
1923	27	56	282	31	0	0	58	56	282
1924	34	67	331	-53	0	0	-19	67	331
1925	38	76	381	0	0	0	38	76	381
1926	43	87	436	0	0	0	43	87	436
1927	51	100	498	0	0	0	51	100	498
1928	55	112	562	0	0	0	55	112	562
1929	64	127	635	0	0	0	64	127	635
1930	72	143	714	0	0	0	72	143	714
1931	80	160	799	497	0	0	577	160	799
1932	470	178	893	5,759	5,993	836	6,229	6,171	1,729
1933	172	199	995	-649	-676	-836	-477	-477	159
1934	356	222	1,110	1,467	1,601	78	1,823	1,823	1,188
1935	52	246	1,231	-1,148	-1,342	-78	-1,096	-1,096	1,153
1936	0	274	1,367	-4,199	-4,473	0	-4,199	-4,199	1,367
1937	0	302	1,514	-1,616	-1,103	0	-1,616	-801	1,514
1938	37	336	1,678	1,498	384	0	1,535	720	1,678
1939	52	371	1,855	537	218	0	589	589	1,855
1940	433	410	2,052	1,641	1,664	0	2,074	2,074	2,052
1941	317	454	2,267	826	689	0	1,143	1,143	2,267
1942	1,203	500	2,502	5,104	5,807	0	6,307	6,307	2,502
1943	0	553	2,763	-5,779	-6,332	0	-5,779	-5,779	2,763
1944	0	609	3,046	-1,962	-2,430	-60	-1,962	-1,821	2,986
1945	0	672	3,360	-1,487	0	60	-1,487	672	3,420
1946	0	741	3,703	-427	0	0	-427	741	3,703
1947	349	816	4,081	349	0	0	698	816	4,081
1948	449	899	4,496	-77	0	0	372	899	4,496
1949	496	991	4,953	611	0	0	1,107	991	4,953
1950	545	1,090	5,453	-945	0	0	-400	1,090	5,453
1951	600	1,201	6,006	0	0	0	600	1,201	6,006
1952	662	1,323	6,612	0	0	0	662	1,323	6,612
1953	727	1,455	7,277	0	0	0	727	1,455	7,277
1954	801	1,602	8,011	0	0	0	801	1,602	8,011
1955	883	1,764	8,817	0	0	0	883	1,764	8,817
1956	969	1,940	9,702	0	0	0	969	1,940	9,702
1957	1,069	2,136	10,678	0	0	0	1,069	2,136	10,678
1958	1,174	2,349	11,747	0	0	0	1,174	2,349	11,747
1959	1,293	2,586	12,927	0	0	0	1,293	2,586	12,927
1960	1,422	2,844	14,222	0	0	0	1,422	2,844	14,222
1961	1,565	3,130	15,649	0	0	0	1,565	3,130	15,649
1962	1,722	3,443	17,215	0	0	0	1,722	3,443	17,215
1963	1,894	3,788	18,939	0	0	0	1,894	3,788	18,939
1964	2,083	4,167	20,836	0	0	0	2,083	4,167	20,836
1965	2,292	4,584	22,921	0	0	0	2,292	4,584	22,921
1966	2,522	5,043	25,215	0	0	0	2,522	5,043	25,215
1967	2,774	5,548	27,739	0	0	0	2,774	5,548	27,739
1968	3,050	6,102	30,513	0	0	0	3,050	6,102	30,513
1969	3,358	6,714	33,567	0	0	0	3,358	6,714	33,567
1970	3,692	7,385	36,925	4,034	0	0	7,726	7,385	36,925
1971	4,061	8,123	40,617	-4,034	0	0	27	8,123	40,617
1972	4,468	8,937	44,681	0	0	0	4,468	8,937	44,681
1973	4,915	9,830	49,150	0	0	0	4,915	9,830	49,150
1974	5,406	10,813	54,066	42,934	0	0	48,340	10,813	54,066

Note: In subdividing charges and credits between those due to the retrospective accumulation and those due to the two part minimum reserve, we have assumed that even without the two part minimum reserve, the retrospective accumulation would not be permitted to be negative. Therefore, the charge or credit due to the retrospective accumulation equals the year's MDBG claims plus the year's increase or decrease in the retrospective accumulation with any negative accumulation taken as zero for this purpose. The total charge or credit equals the year's MDBG claims plus the year's increase or decrease in the actual reserve held so that the additional charge or credit due to the two part minimum is the difference.

Exhibit G3b

Effect on Gains of Proposed MDBG Reserve System for EQUITABLE TYPE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1925 with $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Charge (+) or Credit (-) Due to Retrospective Accumulation Where Annual Allocations are			Additional Charge (+) or Credit (-) Due to Two Part Minimum Reserve Where Annual Allocations Are			Total Charge (+) or Credit (-) Where Annual Allocations Are		
	0.2% of Net Premiums (1)	0.4% of Net Premiums (2)	2% of Net Premiums (3)	0.2% of Net Premiums (4)	0.4% of Net Premiums (5)	2% of Net Premiums (6)	0.2% of Net Premiums (7)	0.4% of Net Premiums (8)	2% of Net Premiums (9)
1926	$ 3	$ 6	$ 32	$ 0	$ 0	$ 0	$ 3	$ 6	$ 32
1927	7	13	63	0	0	0	7	13	63
1928	9	19	94	0	0	0	9	19	94
1929	13	25	126	0	0	0	13	25	126
1930	15	32	161	0	0	0	15	32	161
1931	20	40	199	328	260	0	348	300	199
1932	110	48	240	936	998	526	1,046	1,046	766
1933	57	56	282	202	203	-23	259	259	259
1934	98	93	331	443	448	210	541	541	541
1935	20	50	381	-115	-145	-476	-95	-95	-95
1936	0	87	436	-1,140	-1,227	-237	-1,140	-1,140	199
1937	0	100	498	-611	-537	0	-611	-437	498
1938	14	112	562	441	169	0	455	281	562
1939	38	127	635	140	51	0	178	178	635
1940	142	143	714	634	633	0	776	776	714
1941	120	160	799	484	444	0	604	604	799
1942	404	178	893	1,760	1,986	0	2,164	2,164	893
1943	0	199	995	-1,984	-2,183	0	-1,984	-1,984	995
1944	0	222	1,109	-822	-1,044	0	-822	-822	1,109
1945	0	246	1,231	-507	-56	0	-507	190	1,231
1946	45	274	1,367	-189	0	0	-144	274	1,367
1947	151	302	1,514	98	0	0	249	302	1,514
1948	168	336	1,678	-25	0	0	143	336	1,678
1949	185	371	1,855	242	0	0	427	371	1,855
1950	205	410	2,052	-315	0	0	-110	410	2,052
1951	228	454	2,267	0	0	0	228	454	2,267
1952	249	500	2,502	0	0	0	249	500	2,502
1953	277	553	2,763	0	0	0	277	553	2,763
1954	304	609	3,046	0	0	0	304	609	3,046
1955	337	672	3,360	0	0	0	337	672	3,360
1956	370	741	3,703	0	0	0	370	741	3,703
1957	408	816	4,081	0	0	0	408	816	4,081
1958	449	899	4,496	0	0	0	449	899	4,496
1959	496	991	4,953	0	0	0	496	991	4,953
1960	545	1,090	5,453	0	0	0	545	1,090	5,453
1961	600	1,201	6,006	0	0	0	600	1,201	6,006
1962	662	1,323	6,612	0	0	0	662	1,323	6,612
1963	727	1,455	7,277	0	0	0	727	1,455	7,277
1964	801	1,602	8,011	0	0	0	801	1,602	8,011
1965	883	1,764	8,817	0	0	0	883	1,764	8,817
1966	969	1,940	9,702	0	0	0	969	1,940	9,702
1967	1,069	2,136	10,678	0	0	0	1,069	2,136	10,678
1968	1,174	2,349	11,747	0	0	0	1,174	2,349	11,747
1969	1,293	2,586	12,927	0	0	0	1,293	2,586	12,927
1970	1,422	2,844	14,222	1,571	0	0	2,993	2,844	14,222
1971	1,565	3,130	15,649	-1,571	0	0	-6	3,130	15,649
1972	1,721	3,443	17,215	0	0	0	1,721	3,443	17,215
1973	1,894	3,788	18,940	0	0	0	1,894	3,788	18,940
1974	2,084	4,167	20,835	16,572	0	0	18,656	4,167	20,835

Note: In subdividing charges and credits between those due to the retrospective accumulation and those due to the two part minimum reserve, we have assumed that even without the two part minimum reserve, the retrospective accumulation would not be permitted to be negative. Therefore, the charge or credit due to the retrospective accumulation equals the year's MDBG claims plus the year's increase or decrease in the retrospective accumulation with any negative accumulation taken as zero for this purpose. The total charge or credit equals the year's MDBG claims plus the year's increase or decrease in the actual reserve held so that the additional charge or credit due to the two part minimum is the difference.

Exhibit G3c

Effect on Gains of Proposed MDBG Reserve System for EQUITABLE TYPE Design

Model Company Issuing Variable Whole Life Policies to Males
Commencing Business in July 1945 With $100 Million of Issues Increasing 10% Per Year
Where Investment Experience of Separate Account Follows Standard and Poor's 500 Stock Index,
Dividends Reinvested, ½ Percent Annual Charge, No Federal Tax Deducted,
on 1958 CSO Male 3% Traditional Net Level Reserve Basis
(amounts in thousands of dollars)

Policy Year Ending July	Charge (+) or Credit (-) Due to Retrospective Accumulation Where Annual Allocations Are			Additional Charge (+) or Credit (-) Due to Two Part Minimum Reserve Where Annual Allocations Are			Total Charge (+) or Credit (-) Where Annual Allocations Are		
	0.2% of Net Premiums (1)	0.4% of Net Premiums (2)	2% of Net Premiums (3)	0.2% of Net Premiums (4)	0.4% of Net Premiums (5)	2% of Net Premiums (6)	0.2% of Net Premiums (7)	0.4% of Net Premiums (8)	2% of Net Premiums (9)
1946	$ 3	$ 6	$ 32	$ 0	$ 0	$ 0	$ 3	$ 6	$ 32
1947	7	13	63	4	0	0	11	13	63
1948	9	19	94	4	0	0	13	19	94
1949	13	25	126	8	0	0	21	25	126
1950	15	32	161	-16	0	0	-1	32	161
1951	20	40	199	0	0	0	20	40	199
1952	25	48	240	0	0	0	25	48	240
1953	27	56	282	0	0	0	27	56	282
1954	34	67	331	0	0	0	34	67	331
1955	38	76	381	0	0	0	38	76	381
1956	43	87	436	0	0	0	43	87	436
1957	51	100	498	0	0	0	51	100	498
1958	55	112	562	0	0	0	55	112	562
1959	64	127	635	0	0	0	64	127	635
1960	72	143	714	0	0	0	72	143	714
1961	80	160	799	0	0	0	80	160	799
1962	88	178	893	0	0	0	88	178	893
1963	100	199	995	0	0	0	100	199	995
1964	111	222	1,109	0	0	0	111	222	1,109
1965	123	246	1,231	0	0	0	123	246	1,231
1966	137	274	1,367	0	0	0	137	274	1,367
1967	151	302	1,514	0	0	0	151	302	1,514
1968	168	336	1,678	0	0	0	168	336	1,678
1969	185	371	1,855	0	0	0	185	371	1,855
1970	205	410	2,052	492	0	0	697	410	2,052
1971	228	454	2,267	-492	0	0	-264	454	2,267
1972	251	500	2,502	0	0	0	251	500	2,502
1973	276	553	2,762	0	0	0	276	553	2,762
1974	305	609	3,047	2,742	0	0	3,047	609	3,047

Note: In subdividing charges and credits between those due to the retrospective accumulation and those due to the two part minimum reserve, we have assumed that even without the two part minimum reserve, the retrospective accumulation would not be permitted to be negative. Therefore, the charge or credit due to the retrospective accumulation equals the year's MDBG claims plus the year's increase or decrease in the retrospective accumulation with any negative accumulation taken as zero for this purpose. The total charge or credit equals the year's MDBG claims plus the year's increase or decrease in the actual reserve held so that the additional charge or credit due to the two part minimum is the difference.

Changes in the Variable Life Insurance Model Regulation:
Three Proposals

Article V, Reserve Liabilities for Variable Life Insurance

Some may argue for no reserve due to the high probability of the variable death benefit exceeding the guarantee, or due to a loading in each premium to cover the risk on a one year term basis. However, some contingency reserve developed by practical means may be desirable.

In general it would appear that any reserve for guaranteed minimum death benefits should be:

1) Held in the general account.

2) Could be drawn upon when the guarantee exceeds the variable death benefits otherwise payable.

3) Relatively small in relation to the basic reserve held in the separate account for the variable life policy.

4) As a consequent of (3) be subject to suitable approximations and estimates.

The reserve called for by Article V2a appears to meet all the general conditions except (2). This reserve, with one third asset depreciation, may be greatest and may need to be increased at the very time when it should be drawn upon to support additional costs for the excess of minimum death benefits over amounts otherwise payable. The one third asset depreciation is an arbitrary and conservative figure but applicable only for one year and then followed by a net investment return equal to the assumed investment rate. The effect of this reserve may differ according to (1) the method of computing variable benefits, e.g. one plan of applying excess (or deficit) interest to purchase paid-up additions (positive or negative), another plan of applying excess or deficit interest on a premium paying basis to the basic plan, (2) the duration of the policy, (3) the attained age, (4) the difference between the current variable death benefit and the minimum. Illustrations for several situations should be prepared by several companies.

The reserve under Article V2b appears to be a reserve that can be drawn upon and thus meets all four conditions but there may never be a need for an Article V2b reserve, or if there is one, such reserve would not be required unless it exceeded the Article V2b reserve.

Article V2b reserve is theoretically justified. It may be necessary to control excessive guaranteed minimum death benefits and in the event the investment experience turns sour and the variable death benefits otherwise payable be less than the guaranteed minimum. Although the calculations may appear quite complicated for such a small reserve, the calculations are feasible by use of computers and furthermore, Article V2c allows "suitable approximations and estimates, including but not limited to groupings and averages."

Generally speaking, the valuation interest rate should not exceed the rate used in calculating nonforfeiture benefits according to the Standard Valuation Law adopted by many states and Section 205 of the New York State Insurance Law. Further, Article IV2h says in part, "The assumed investment rate shall not exceed the maximum interest rate permitted under the Standard Non-Forfeiture Law of this atate," which is generally either 3½% or 4%.

In light of the preceding paragraph and reference to valuation standard in Article V2c, the calculation of the payment under paragraph (2) of Article V2b needs clarification.

1) What interest rate should be used in determining (A) the present value of the future guaranteed minimum death benefit?

2) May the valuation interest rate in determining (A) be higher than that used in valuing (b) the present value of the future death benefits that would be payable in the absence of such guarantees? In view of the quote from Article IV2h, the answer would appear to be no.

3) What does the last sentence of paragraph (2) of Article 2b mean? May an assumed net investment return for purposes of determining future benefits be higher than the assumed investment rate and/or the valuation interest rate? If yes, what effect does this have? If the assumed net investment return in determining future benefits is lower than the assumed investment rate and/or the valuation interest rate, what effect does this have? Illustrations would be helpful for clarification.

While the reserve under Article V2b is theoretically justified, in my opinion, it is a complicated procedure for a relatively small reserve. I would prefer to see a risk premium (e.g. 1% of the basic policy premium) accumulated with benefit of interest and survivorship less tabular claims based on the excess, if any, of the guaranteed minimum death benefit over the death benefit payable in the absence of such guarantee, subject to the minimum under Article V2b and to some maximum such as five times the risk premium.

In any event, it appears from the footnote at 1974 Proc. I 475 that the intention is to restudy the reserve calculation basis after a five year period based on the results of the accumulated statistics. At that time the reserve requirements can be revised, but in view of the relatively minor reserve involved, any requirements now proposed should be practical and not create a major stumbling block to the adoption of an NAIC Model Variable Life Insurance Regulation.

Robert J. Callahan
Chief, Actuarial Valuation Bureau

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Proposed Revision of Section 8 of Article VII

Section 8 of Article VII of the NAIC Model Variable Life Insurance Regulation permits an insurer to furnish an applicant illustrations of benefits payable under a variable life insurance policy, provided such illustrations are not based on projections of past investment experience into the future or attempted predictions of future investment experience.

An insurer should be required to show, not only illustrations of benefits payable under a variable life insurance policy based upon a range of hypothetical gross rates of investment return of the separate account, which the present Section 8 would permit but not require, but also comparable figures, over a period of at least 20 years, for a comparable fixed benefit policy that could be issued either by the insurer, or, if a subsidiary and such company does not issue a comparable fixed benefit policy, by the parent or an affiliate company.

Such illustrations of benefits, which would include death benefits and cash values, would serve a twofold purpose. Firstly, it would give the applicant some idea as to what his benefits under his variable life insurance policy might be, depending upon a range of gross rates of investment return of the separate account. Secondly, it would enable the applicant to compare the expected benefits of his variable life insurance policy, based upon such gross rates of investment return of the separate account, with the benefits of a fixed benefit life insurance policy that he could purchase with the same premiums.

This kind of a comparison would alert the applicant to the fact that if the gross rate of investment return of the separate account was poor, or say, just average, over a long period, then he might do better by purchasing a fixed benefit policy. In other words, this comparison would point out the inherent risks to the policyholder that are involved in the purchase of a variable life insurance policy because of the wide variations in benefits that can occur, depending upon the investment performance of the separate account.

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Exchange Provision

Section 3 of Article IV of the NAIC Model Variable Life Insurance Regulation, entitled "Mandatory Policy Provisions" sets forth a number of required policy provisions. Among them is a provision (Subsection F) that would allow the policyowner, at any time during the first eighteen months, to exchange his variable life insurance policy for a policy of permanent fixed benefit insurance for the same initial amount of insurance as the variable policy.

This exchange provision is subject to the following conditions:

1. The new policy shall bear the same date of issue and age at issue as the original variable life insurance policy.

2. The new policy is issued on any plan of permanent insurance offered by the insurer (or an affiliate) on the date of issue of the variable life insurance policy and on the basis of premium rates in effect on that date for the same class of insurance.

3. The new policy shall include such riders and incidental insurance benefits as were included in the variable life insurance policy, if such riders and incidental insurance benefits could have been issued with the fixed benefit policy. If the exchange results in an increase or decrease in cash value, such increase (or decrease) shall be payable to the insurer or the insured, as the case may be.

4. The insurer must apply as an advance premium any excess of the accrued premium on the variable life insurance policy from the date of issue to the date of request for exchange over the corresponding accrued premium on the new fixed benefit policy, except that any portion of such excess which is less than a regular mode premium on the new policy may either be applied as an advance premium or refunded in cash, at the option of the insurer.

5. The insurer shall not require evidence of insurability for this exchange.

Comments

The requirement of an eighteen month exchange provision in the variable life insurance policy would indeed be a unique policy provision. Companies writing ordinary life insurance policies today are not required by law to allow a policyowner to exchange his policy, on an original age basis, for another policy on either a higher, or lower, premium form than was originally issued.

Nevertheless, companies will generally allow a policyowner, subject to its change rules, to exchange a policy for another of either a higher, or more commonly, lower premium form, on an original age basis. The basis of exchange is usually expressed in terms of the difference in cash values, with or without a loading, or the difference in premiums, with or without a loading, or some combination that takes the two into account. The change rules could be influenced by the agent's commission treatment resulting from the exchange, by the payment of any dividends if the policy is participating, by the payment of any additional premium taxes resulting from the exchange and by the additional expenses that result from the exchange. The change rules vary from company to company.

There are good reasons for requiring an exchange provision in a variable life insurance policy. Because of the complexity of variable life, an applicant may not fully understand at time of issue exactly what he is buying. There is the inherent danger of lower than tabular cash values that may accrue to the policyholder in the future. Also, in the case of a participating fixed benefit policy, the total death benefits (assuming the dividends purchase paid-up additions) could be considerably higher on the fixed benefit policy than on the variable policy, if the investment performance of the separate account was poor.

An eighteen month exchange provision would give the policyowner the opportunity to become familiar with the operations of his policy, particularly its variable nature, and if he decides that perhaps variable life is not for him, then he would be able to exchange it for a fixed benefit policy on an original age basis.

The Model Regulation stipulates, as described above, the rules for the exchange of a variable life insurance policy for a fixed benefit policy. The deficiencies in these rules will be discussed below.

There is a fundamental question that must be asked, however. Should a state regulation prescribe a set of change rules or should this be left to the companies? As previously mentioned, the change rules used by companies today as a basis for exchanging one fixed benefit policy for another on an original age basis vary among companies. The theory of change is very complex for fixed benefit insurance, and even more complex for variable life insurance. It would be very difficult to prescribe a set of change rules that would be appropriate for all situations and for all companies. The state laws have never prescribed any change rules in the past, so one can ask, why should we do so now.

If the change rules were left to the Companies to determine, we could require either (1) that the rules be filed for approval, or (2) that the rules only be filed, or (3) that the rules be in writing and available for inspection by state regulatory officials.

Regardless of whether or not the Model Regulation stipulates exactly what the change rules should be, the following situations should be considered (assume that there are no dividends involved in the exchange).

Let the variable life insurance premium be denoted by P^{VL}

the fixed benefit premium be denoted by P^{FB}

the variable life insurance cash value at exchange be denoted by CV^{VL}

the fixed benefit cash value at exchange be denoted by CV^{FB}

Situation 1

	P^{FB}	greater than P^{VL}
and	CV^{FB}	greater than CV^{VL}

Under the present Model Regulation, the policyowner would have to pay to the insurer the difference in cash values at time of exchange. If the difference in premiums, however, was greater than the difference in cash values, then it would be logical for the policyowner to pay to the insurer at least this larger amount (in lieu of the difference in cash values). Otherwise in such a situation a policyowner, who desired fixed benefit coverage, could purchase a variable life policy, exchange it, for example, after one year for a fixed benefit policy, and pay a lower premium than if he had purchased a fixed benefit policy originally. Other considerations involved here (that the Model Regulation does not consider but which are important) are the treatment of agency commissions, premium taxes and dividends, if any.

Situation 2

	P^{FB}	greater than P^{VL}
and	CV^{VL}	greater than CV^{FB}

In this situation, under the present Model Regulation, the policyowner would be paid by the insurer at the time of exchange the difference in cash values. However, the higher premium on the fixed benefit policy cannot be ignored. This situation is the most difficult of all because you have the anomalous situation of a change from a lower to a higher premium policy, but with a lower cash value. One solution would be to require the policyowner to pay to the insurer the difference in gross premiums and, in addition, to require the insurer to pay the policyowner the difference in cash values. While this seems to be the fairest possible solution as far as the policyowner is concerned, it could result in selection against the company. A policyowner, desiring a fixed benefit policy, could purchase a variable policy, exchange it after a year for a fixed benefit policy, and pay a lower first year premium than if he had purchased the fixed benefit originally. Another solution would be to prohibit an original age exchange in this type of situation. This could be justified on the grounds that it is impossible to devise an exchange rule that would be equitable to all policyholders that might be affected.

Situation 3

	P^{VL}	greater than P^{FB}
and	CV^{VL}	greater than CV^{FB}

In this situation, under the present Model Regulation, the policyowner would be refunded the difference in cash values and also be credited with the difference in premiums. Such refund and credit to the policyowner would be redundant. Logically, the policyowner should receive an amount based on the difference in cash values. Other considerations involved here that were mentioned above for Situation 1 but not considered in the Model Regulation are the treatment of agency commissions and dividends, if any.

Situation 4

	P^{VL}	greater than P^{FB}
and	CV^{FB}	greater than CV^{VL}

In this situation, under the present Model Regulation, the policyowner would have to pay to the insurer the difference in cash values. This would be a proper rule, notwithstanding any adjustments for such items as agency commissions, if any, which may be required.

Robert A. Lomicky
Supervising Actuary – Life Bureau